

OFFICE OF THE AUDITOR GENERAL IN INDIA.

FROM

SIR FREDERIC GAUNTLETT, K.B.E., C.I.E., I.C.S.,
AUDITOR GENERAL IN INDIA,

TO

THE SECRETARY TO THE GOVERNMENT OF INDIA,
FINANCE DEPARTMENT.

Dated Delhi, the 26th July 1927.

SUBJECT :—*Appropriation Reports for the year 1925-26.*

SIR,

I have the honour to forward herewith for transmission to the Secretary of State for India, through the Governor General in Council, ~~two~~ copies of each of the reports, as detailed in the accompanying schedule, prepared by the respective Audit and Accounts Officers, on the accounts of 1925-26 of the various Governments in India, together with ~~two~~ copies of each of my letters to the Government of India and to the respective provincial Governments containing my comments on these reports. I also offer for communication to the Secretary of State the following further comments of a general nature :—

I.—Changes in the form of the report.

2. In para. 2 of my letter forwarding the Appropriation Reports for 1924-25, I stated that the changes suggested by me for the amplification of the Indian Appropriation Reports on the lines of the report prepared by the Comptroller and Auditor General in England has been accepted by the Central Public Accounts Committee and by the Government of India and that the Appropriation Accounts of the Civil transactions of the Government of India for the year 1924-25 had been prepared accordingly. In para. 3 of the same letter I stated that the question of introducing similar changes in the Audit and Appropriation Reports of the Provincial Governments was under their consideration and that some of these changes had been accepted by the Governments of Bengal and the United Provinces. The extent to which the effect has since been given to my suggestions by the several Governments has been fully described in paras. 2 and 3 of my letter No. 795-Admn./41-27, dated the 1st June 1927, forwarding the Audit Reports on the accounts of the Governments of Madras, Bombay, Burma, Bihar and Orissa and Coorg for the year 1925-26. The Appropriation Reports for 1925-26 on the accounts of the Government of India and of the Governments of Madras, Bengal, the United Provinces, the Punjab, the Central Provinces, and Assam have been generally prepared on the new lines, while Reports on the accounts of the Governments of Bombay, Burma, Bihar and Orissa and Coorg have been prepared on the lines of previous Reports.

3. It will be noticed that the Reports which have been prepared on the new lines—except in the case of the United Provinces where a nomenclature similar to that of the British Report has been adopted—have been described as the “Audit and Appropriation Accounts” of the Governments and of the Departments of the Government of India concerned and that this nomenclature differs from that used in rule 15 of the Auditor General’s Rules. In this connection a reference is invited to paras. 4 and 5 of my letter dated the

1st June 1927, in which I suggested the necessity of amending the wording of rule 15 of the Auditor General's Rules. I am of opinion that the Report intended for presentation to the Public Accounts Committee should be described as the "Appropriation Accounts of the

and the Report of the ^(Government or Department of the Central) ^(Audit Office concerned) thereon", and that this publication alone should be regarded as the "Audit and the Appropriation Reports" for the purpose of rule 15 of the Auditor General's Rules and the "Audit and Appropriation Accounts" referred to in the respective Legislative Rules.

This title is too long for general use, and in this letter I shall refer to all the Reports now forwarded as Appropriation Reports while the Reports which were forwarded with my letter No. 795-Admn./41-27, dated the 1st June 1927 will be described as Audit Reports.

II.—Central Finance.

4. This year also I do not propose to attempt a review of the general financial position of the Government of India.

5. *Loan transactions between the Central and Provincial Governments.*—For the purpose of concentrating all loan transactions between the Central and provincial Governments in a self-contained account, independent of the general debt account of the Central Government, and with the further object of formulating the terms and conditions on which such operations would be conducted in future, a fund entitled the "Provincial Loans Fund" has been established with effect from 1st April 1925. The main principles on which the Fund operates and the working of the Fund during 1925-26 have been described in paragraph 22 of the Appropriation Report on the Civil transactions of the Government of India in 1925-26.

III.—Provincial Finance.

[NOTE.—In all subsequent paragraphs figures relating to money, which appear without the "Rs." symbol before them, represent thousands of rupees, unless stated otherwise.]

6. *Comparison of the revenue and expenditure accounts of the provincial Governments.*—The following table prepared from the Finance and Revenue Accounts brings together the revenue and expenditure accounts of the several provincial Governments during 1924-25 and 1925-26. The figures do not agree in all cases with those given in the Appropriation Reports, as all provincial Accountants General did not follow the same method in exhibiting these figures in their Reports.

| Provincial Governments. | Revenue. | | Expenditure. | | Surplus + Deficit — | | | Improvement or worseness in 1925-26 as compared with 1924-25. | Total surplus or deficit — for five years, 1921-22 to 1925-26. |
|-------------------------|----------|----------|--------------|----------|---------------------|-----------|-----------|--|--|
| | 1924-25. | 1925-26 | 1924-25 | 1925-26 | 1924-22 to 1925-24. | 1924-25 | 1925-26. | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Madras .. | 12,70.03 | 11,71.35 | 13,08.50 | 13,72.99 | -65.13 | - 20.17 | + 98.37 | + 1,27.81 | + 3.17 |
| Bombay .. | 11,09.18 | 15,24.18 | 11,72.57 | 16,15.52 | -97.80 | + 26.61 | - 91.34 | - 1,17.05 | - 1,62.53 |
| Bengal.. .. | 10,34.21 | 10,70.17 | 9,76.02 | 10,30.63 | - 1,51.50 | + 58.22 | + 39.51 | - 18.68 | - 56.74 |
| United Provinces | 9,09.53 | 10,86.68 | 10,12.19 | 11,17.13 | - 2,29.16 | - 42.06 | - 89.75 | + 12.21 | - 3,02.87 |
| Punjab .. | 9,77.72 | 11,52.00 | 7,91.74 | 9,91.38 | - 1,17.15 | + 1,82.98 | + 1,57.61 | - 25.37 | + 2,23.14 |
| Burma.. .. | 9,85.76 | 10,18.82 | 9,86.73 | 10,79.52 | - 1,69.22 | - 97 | - 60.71 | - 59.74 | - 2,39.00 |
| Shan States Fedn. | 45.32 | 50.02 | 41.02 | 50.19 | + 25.77 (a) | + 10 | - 2.48 | - 88 | + 25,71 6/8 |
| Bihar and Orissa | 5,36.53 | 5,78.01 | 5,13.12 | 5,51.93 | + 59.47 | + 23.11 | + 21.01 | + 60 | + 1,06.59 |
| Central Provinces | 5,25.31 | 5,35.14 | 4,88.26 | 5,32.62 | + 21.01 | + 37.08 | + 2.52 | - 51.56 | + 61.54 |
| Assam .. | 2,30.49 | 2,50.05 | 2,00.20 | 2,28.21 | - 23.86 | + 30.20 | + 21.84 | - 8.76 | + 28.18 |
| Coorg .. | 15.01 | 13.85 | 13.06 | 12.81 | .. | + 1.08 | + 1.01 | - 91 | + 3.02 |
| Total .. | 81,28.18 | 87,51.20 | 78,40.70 | 85,80.53 | - 7,46.94 | + 2,57.48 | + 1,61.67 | - 1,25.81 | - 2,07.70 |

(a) 1922-23 and 1923-24.

The figures in the columns under "Revenue" in the above table represent the net revenue of the provincial Governments, after payment of the contributions due to the Central Government under rule 18 of the Devolution Rules and after completion of the miscellaneous adjustments between the Central and provincial Governments. The contributions in the year under review came to 6,20 lakhs. The figures in the columns under "Expenditure" include the balances transferred to the Famine Insurance Fund under Schedule IV of the Devolution Rules.

Column 8 of the table shows that, during the year under review, there were deficits in Bombay, the United Provinces, Burma and the Shan States and column 9 indicates that, as compared with the year 1924-25, the financial position has improved in the case of the Governments of Madras, the United Provinces and Bihar and Orissa only, the improvement being very marked in the case of the Government of Madras, whereas the financial position of other provincial Governments deteriorated.

Column 10 of the table shows that the revenue deficits of the quinquennial period ending 1925-26 were highest in the case of the Governments of the United Provinces, Burma and Bombay in that order. The two former were also the worst for the period ending 1924-25.

7. *Borrowings of provincial Governments during 1925-26.*—Funds were borrowed by most provincial Governments in 1925-26 to meet capital expenditure on irrigation and forest works, industrial development and permanent works of public utility and to finance the transactions on account of provincial loans and advances.

The loans taken from the Provincial Loans Fund amounted to:—

| | | | | | |
|-----------------------------|----|----|----|----|---------|
| By the Government of Madras | .. | .. | .. | .. | 88,61 |
| " " Bombay | .. | .. | .. | .. | 6,58,00 |
| " " Bengal | .. | .. | .. | .. | 23,50 |
| " " United Provinces | .. | .. | .. | .. | 1,99,53 |
| " " Central Provinces | .. | .. | .. | .. | 13,00 |

and loans to the extent of 73,42 were raised in the open market by the Government of the Punjab.

8. *Discharge by the provincial Governments of loans taken from the Provincial Loans Fund.*—The following amounts were repaid by provincial Governments against advances outstanding against them on account of the provincial loan account under Devolution Rule 23:—

| | | | | | |
|-------------------|----|----|----|----|-------|
| Madras | .. | .. | .. | .. | 9,50 |
| Bombay | .. | .. | .. | .. | 29,74 |
| United Provinces | .. | .. | .. | .. | 25,00 |
| Bihar and Orissa | .. | .. | .. | .. | 25,45 |
| Central Provinces | .. | .. | .. | .. | 21,82 |

In addition to the above, the following amounts were paid by local Governments in discharge of the outstanding balances of advances taken under Devolution Rule 25:—

| | | | | | |
|-------------------|----|----|----|----|-------|
| Madras | .. | .. | .. | .. | 20,77 |
| Bombay | .. | .. | .. | .. | 44,78 |
| Bengal | .. | .. | .. | .. | 4,93 |
| Punjab | .. | .. | .. | .. | 1,31 |
| Central Provinces | .. | .. | .. | .. | 3,06 |

9. *Provincial Balances.*—The movements of provincial balances during the year 1925-26 are set out in the following statement:—

| Gov ments. | | | | | Opening balance. | Closing balance. | Reductions—Increases + |
|------------------------|----|----|----|----|------------------|------------------|------------------------|
| Madras | .. | .. | .. | .. | 30,56 | 1,44,48 | +1,13,92 |
| Bombay | .. | .. | .. | .. | 6,68,17 | 7,33,69 | +65,52 |
| Bengal | .. | .. | .. | .. | 1,93,91 | 2,38,27 | +44,36 |
| United Provinces | .. | .. | .. | .. | 75,13 | 52,40 | —22,64 |
| Punjab | .. | .. | .. | .. | 1,41,23 | 2,68,11 | +1,26,88 |
| Burma | .. | .. | .. | .. | 2,79,47 | 2,43,20 | —36,27 |
| Shan States Federation | .. | .. | .. | .. | 26,13 | 25,48 | —65 |
| Bihar and Orissa | .. | .. | .. | .. | 2,02,18 | 2,24,37 | +22,19 |
| Central Provinces | .. | .. | .. | .. | 2,44,75 | 2,29,36 | —15,39 |
| Assam | .. | .. | .. | .. | 44,03 | 65,32 | +21,29 |
| Coorg | .. | .. | .. | .. | 1,98 | 3,02 | +1,04 |

In determining the true financial position of the provinces, the following facts must be taken into consideration.

The closing balances include the balances of the Famine Insurance Fund on 31st March 1926 as noted below:—

| | | | | | | |
|-------------------|----|----|----|----|----|---------|
| Madras.. | .. | .. | .. | .. | .. | 21,42 |
| Bombay | .. | .. | .. | .. | .. | 1,95,32 |
| Bengal .. | .. | .. | .. | .. | .. | 10,68 |
| United Provinces | .. | .. | .. | .. | .. | 30,20 |
| Punjab .. | .. | .. | .. | .. | .. | 14,00 |
| Burma .. | .. | .. | .. | .. | .. | 2,98 |
| Bihar and Orissa | .. | .. | .. | .. | .. | 56,24 |
| Central Provinces | .. | .. | .. | .. | .. | 1,51,49 |
| Assam .. | .. | .. | .. | .. | .. | 55 |

The closing balances in Madras, Bombay and the United Provinces include the unexpended portions of the advances obtained from the Government of India, amounting to 24,13, 82,35 and 47,29 respectively.

In Bombay, the United Provinces and Burma, the closing balances include the unspent balances of the Bombay Development Loan of the United Provinces Development Department Loan, and the Rice Control Profits, which amounted to 70,15, 1,85,98 and 2,95,62 respectively.

If these balances be excluded the true unallocated revenue balances of each Government are:—

| | | | | | | |
|------------------------|----|----|----|----|----|----------|
| Madras.. | .. | .. | .. | .. | .. | 98,89 |
| Bombay | .. | .. | .. | .. | .. | 3,85,87 |
| Bengal | .. | .. | .. | .. | .. | 2,27,59 |
| United Provinces | .. | .. | .. | .. | .. | —2,10,98 |
| Punjab | .. | .. | .. | .. | .. | 2,54,11 |
| Burma | .. | .. | .. | .. | .. | —55,40 |
| Shan States Federation | .. | .. | .. | .. | .. | 25,48 |
| Bihar and Orissa | .. | .. | .. | .. | .. | 1,68,13 |
| Central Provinces | .. | .. | .. | .. | .. | 77,87 |
| Assam | .. | .. | .. | .. | .. | 64,77 |
| Coorg | .. | .. | .. | .. | .. | 3,02 |

Thus the financial position of the United Provinces and Burma is by no means as satisfactory as would appear from the ostensible balances. Since the end of the year under review, however, the Secretary of State has accepted the view of the Government and Legislature of Burma that the Rice Control Profits may be merged in the general Government balances.

10. *Remission of Provincial Contribution.*—The amounts remitted by the Governor General in Council under rule 18 of the Devolution Rules, in 1926-27 and 1927-28 are stated below as they have an important bearing on

the future development of the financial position of the provincial Governments concerned :—

| | | Contributions payable | Remissions | |
|-------------------|----|-----------------------|-------------|-------------|
| | | | 1926-27 | 1927-28. |
| | | Rs. | Rs. | R. |
| Madras | .. | 3,48,00,000 | 1,82,81,000 | 1,65,19,000 |
| Bombay | .. | 56,00,000 | 28,00,000 | 56,00,000 |
| Bengal | .. | 63,00,000 | 63,00,000 | 63,00,000 |
| United Provinces | .. | 2,40,00,000 | 89,15,000 | 1,50,85,000 |
| Punjab | .. | 1,75,00,000 | 89,27,000 | 85,73,000 |
| Burma | .. | 64,00,000 | 13,77,000 | 50,23,000 |
| Central Provinces | .. | 22,00,000 | .. | 22,00,000 |
| Assam | .. | 15,00,000 | .. | 15,00,000 |

The annual contribution of Rs. 12,000 payable by the Government of Coorg, to the Central Government under rule 7 of the Coorg Devolution Rules has been remitted for the year 1927-28. Only a portion of the sums shown in the last column represent permanent remissions.

11. *Financial condition of the Provinces.*—The financial situation of the different provincial Governments has been dealt with in detail in the reports prepared by the various Accountants General, and, in my letters forwarding these reports to the Governments concerned, I have added whatever comments I have deemed necessary. I shall, therefore, make here only a few remarks of a general nature in regard to the position in each province.

MADRAS.

12. There was a marked improvement in the revenue position of the Government of Madras in the year under review, the accounts of which closed with a surplus of 98,37 against a deficit of 29,47 in the preceding year. This improvement was mainly due to the remission of 1,26,02 in the Provincial contribution and to certain extraordinary receipts amounting to about 40,00. Further remission of contributions will improve the revenue position considerably in succeeding years but the normal growth of expenditure appears to be greater than the normal growth of revenue of the province, while there is no great prospect of immediate improvement of revenue from extraordinary sources.

BOMBAY.

13. From 1922-23, the position of the Bombay Government has been deteriorating year by year. In 1922-23 the surplus was 64,03, in 1923-24 it came down to 29,37, in 1924-25 the surplus was further reduced to 26,61, while in the year under review the province closed with a big deficit of 91,34, in spite of the remission of 22,00 in the Provincial Contribution. The position is expected to become worse in the following years, even with the full remission of the provincial contribution, owing to a further growth of expenditure with no improvement of the revenue. Arrangements have not yet been concluded for the repayment of the loans taken from the Provincial Loans Fund since 1921-22, but any scheme for repayment must necessarily throw a further heavy burden on the ordinary revenues. The financial position of the Government, therefore, appears to be very serious.

BENGAL.

14. The steady improvement in the revenue balance of Bengal since 1922-23 was not maintained during the year under review. In 1925-26, the revenue surplus was 39,54 which was 18,68 less than the surplus in 1924-25.

There is no prospect of any special improvement in the revenue position of the province in the near future except that the Famine Insurance Fund will probably reach the statutory maximum at the end of 1926-27 and it will then be optional to the local Government to suspend temporarily the annual assignment to the Fund.

UNITED PROVINCES.

15. Every year since the inauguration of the Reforms the revenue account of the United Provinces has closed with a deficit balance, the deficits in 1921-22 to 1924-25 being 1,47,87, 64,93, 16,36, and 42,96. In 1925-26 there has been a little improvement, the accounts having closed with a deficit of 30,75.

The decision of His Excellency the Governor, referred to in paragraph 15 of my letter forwarding the Appropriation Report for 1924-25, that certain expenditure on protective Irrigation Works and the Sarda Canal projects, and also interest payable on the capital outlay in respect of some productive canals, should be met from the Famine Insurance Fund, continued to have effect in 1925-26.

In accordance with that policy a sum of 59,00 was treated as a charge against the Famine Insurance Fund assignment and against the accumulated balance of the Fund. But for the utilisation of this amount from the Famine Insurance Fund and of a sum of 56,17 obtained by remission of the Provincial Contribution the deficit would have gone up to 1,45.95. As compared with 1924-25 the revenue was better by 20 lakhs whereas the service expenditure met from revenue, excluding the provincial contribution, increased by about 75 lakhs. Loans will have to be obtained in the near future to meet the commitments on Irrigation capital outlay, reconstruction of roads and construction of police buildings and the interest and amortisation charges on these loans will constitute an additional burden on the revenues. It must be remembered that the balance of the Famine Insurance Fund is nearly depleted and very little will be available therefrom for expenditure on protective irrigation works and interest charges in accordance with the policy mentioned above. Very large remissions of the provincial contribution have been made in 1926-27 and 1927-28 but even so care will have to be exercised in the use of these remissions if the finances of the Government are to be placed on a satisfactory basis.

PUNJAB.

16. The position is so favourable that any detailed analysis is unnecessary.

BURMA.

17. The financial position of the Burma Government has been summarised in paragraphs 41 to 44 of the Burma Appropriation Report. As however, a separate report on the financial position of this Government is being submitted to the Secretary of State, I refrain from making any further comment in this letter. I shall deal with this matter in my letter forwarding the next Reports.

SHAN STATES FEDERATION.

18. In the statements given in paragraphs 6 and 9 above the figures relating to the Burma Government proper and those relating to the Shan States Federation have been shown separately. I have no special comments to offer in regard to the financial position of the Federation.

BIHAR AND ORISSA.

19. The revenue account of the Government of Bihar and Orissa, for 1925-26, closed with a surplus balance of 24,01 against 23,41 in the preceding year. There was practically an improvement of 20,60 in the revenue position of the year under review over that obtained in the preceding year, as a sum of 20,00 was paid in advance during 1925-26 towards the liquidation of the pre-reform provincial loan. There was a general increase of expenditure in the year under review, but the above result will indicate that the growth of revenue has been sufficient to meet this increase of expenditure. The fall in excise revenue by 7½ lakhs in 1924-25 was made good in the year under review, as the revenue under this head increased by 20,63.

CENTRAL PROVINCES.

20. In spite of the remission of 9,00 in the provincial contribution and an extraordinary receipt amounting to 45, there was in the year under review a set back in the financial position of the Government of Central Provinces. The revenue account of the year closed with a surplus of 2,52 against 25,76, 22,70 and 37,08 in 1922-23, 1923-24, and 1924-25 respectively. As compared with the preceding year the revenue of the year under review improved by 9,80, while expenditure increased by 44.36. As stated in my letter forwarding the Appropriation Reports for 1924-25 an advance payment of 17,20 was made in that year towards the liquidation of the provincial loan.

ASSAM.

21. The revenue account of the Government of Assam for the year under review closed with a surplus of 21,84 against 20,86 and 30,20 in 1923-24 and 1924-25 respectively. As compared with the preceding year its revenue improved by 20 lakhs while the expenditure increased by 28 lakhs. The Government is, however, now free from all debts, and has received a remission of 6 lakhs in the provincial contribution.

COORG.

22. The accounts of the Government of Coorg closed with a surplus of 1,04 against 1,98 in the preceding year. I have no special comments to offer in regard to the financial position of the Government.

IV.—Appropriation Accounts.

23. *Method of splitting up voted expenditure into grants.*—In paragraphs 26 and 27 of my letter forwarding the Appropriation Reports for 1922-23 I gave a brief outline of the manner in which the several Demands for voted expenditure were drawn up for submission to the various Legislative bodies in India. In paragraph 23 of my letter forwarding the Appropriation Reports for 1924-25, I mentioned the changes in the structure of the Demands which have since been introduced by the Governments of Madras and Burma, and in paragraph 24 thereof I commented upon the undesirability of the reduction in the number of Demands and of the grouping of several major heads of account under one Demand.

As already stated in my last mentioned letter, the number of grants in Burma has been reduced to four, one for each member and one for each minister, and this is the only Government which has adopted this method of presentation of the Demands to the Legislature.

In 1925-26, the Government of Madras reduced the number of demands by consolidating the two Land Revenue Demands, together with famine relief expenses, into one Demand and similarly by amalgamating Civil and Criminal Justice into one Demand. The practice of grouping several major heads of account under one Demand is prevalent in this province.

24. If it be agreed that an undue diminution in the number of grants is bound to lessen the power of control by the Legislature contemplated by the Reformed constitution, it may be desirable to consider whether the statutory rules on the subject should not be amended so as to give effect to the underlying principles of the constitution on this important point.

In my letter forwarding the Appropriation Reports to each of these provincial Governments, I have commented on the undesirability of this procedure and have also suggested, for the consideration of the respective Public Accounts Committees, whether it should not recommend to the local Legislature to request an increase in the number of Demands.

25. The practice of grouping several major heads of account under one Demand, has been discontinued in Bombay with effect from 1925-26.

26. The procedure of presenting one Demand for both 'Reserved' and 'Transferred' expenditure recorded in the same major head of account referred to in paragraph 25 of my letter forwarding the Appropriation Reports for 1924-25 also continued in the year under review in the United Provinces, Burma and Assam.

27. In some provinces, *e.g.*, Madras, Burma, a single Demand was presented for both revenue and capital expenditure. The undesirability of this procedure has been discussed in paragraph 9 of my letter forwarding the Appropriation Report of the Government of Madras to the local Government [Enclosure V (a)]. It has been suggested that the Public Accounts Committee should consider whether it shall advise that capital and revenue transactions shall not be included within the same Demand.

28. A special feature of the Appropriation Report of the Government of Bengal is that the transfer of certain subjects remained suspended for the major portion of the year under review. The grants sanctioned for expenditure on transferred items were utilised to meet expenditure on those items after their conversion into "Reserved" in virtue of the suspension. In the Central Provinces the Demand for salaries and travelling allowance of Ministers was rejected by the Council. The Demand was not restored and Ministers were not appointed. The administration of the transferred subjects was undertaken by His Excellency the Governor of Central Provinces.

29. The complicated account adjustment of the "Establishment" and "Tools and Plant" charges of the Public Works Department on a *pro-rata* basis renders it difficult to exercise proper control over expenditure under these heads. To obviate this difficulty I have often advocated the presentation of a separate Demand for these charges. From paragraph 38 of the Appropriation Report of the Government of Bihar and Orissa it will be seen that, to facilitate the control over expenditure under these heads in the Irrigation Department, a collective Demand for Irrigation expenditure under all major heads of accounts has been introduced with effect from the year 1924-25, so that the provision for the entire "Establishment" and "Tools and Plant" charges appears in one place. In Bombay also the expenditure under "Establishment" and "Tools and Plant" has been estimated for within one grant. These measures are steps towards the method of budgeting advocated by me.

30. *Gross and net grants.*—In paragraph 26 of my letter forwarding the Appropriation Reports for 1924-25 reference was made to the procedure of presenting *gross* and *net* grants. A memorandum (copy of which is enclosed—Enclosure XV), was prepared by me on the question of the treatment of *gross* and *net* grants and the accounting problem involved therein, which was discussed at the conference of the financial representatives of the various Governments held in November 1926. It was agreed that the rules proposed in paragraph 12 of the memorandum should be tentatively adopted in all provinces. The official opinion of the several Governments have been called for, and I hope shortly to be able to issue final decisions on the accounting problems involved.

31. *Utilisation of the Famine Insurance Grant.*—In paragraph 25 of my letter forwarding the Appropriation Reports for 1923-24 I invited particular attention to the decisions reached by the Government of Bombay, the United Provinces and the Central Provinces in regard to the utilisation of the Famine Insurance Grant and Fund for meeting interest charges on Irrigation Capital outlay and working expenses of certain canals and for making repayments of loans obtained for Irrigation Constructions. In paragraph 28 of my letter forwarding the Appropriation Reports for 1924-25 I added further comments as to the manner in which the Grant and the Fund are being utilised by the Governments of Bombay, the United Provinces and the Central Provinces.

32. The following statement exhibits for each province the transactions of the Famine Insurance Grant and Fund since the inception of the Reforms in 1921-22, the accrued balance in the Fund at the end of the year under review and the percentage of such balance on the aggregate annual assignments :—

| Provinces. | Annual assignments (aggregate for the years 1921-22 to 1925-26). | Expenditure from the Famine Insurance Grant (totals for the years 1921-22 to 1925-26). | | | Balance of the grant transferred to F. I. Fund up to 31st March 1926. | Additions to F. I. Fund during the years 1921-22 to 1925-26 (other than those mentioned in Column 6). | Withdrawals from the Famine Insurance Fund during the years 1921-22 to 1925-26. | Closing Balance of the Fund on 31st March 1926. | Percentage which column 9 bears to column 2. |
|----------------|--|--|-------------------|-------------------|---|---|---|---|--|
| | | On Irrigation. | On debt Services. | On Famine Relief. | | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Madras .. | 33,05,000 | 84,463 | ... | 10,03,310 | 22,17,218 | 1,02,027 | 2,60,850 | 21,42,395 | 61·82 |
| Bombay .. | 3,18,00,000 | 87,21,310 | ... | 52,04,157 | 1,78,74,533 | 16,57,203 | ... | 1,05,31,730 | 61·42 |
| Bengal .. | 10,01,000 | 625 | ... | 30,548 | 9,09,452 | 98,899 | ... | 10,08,351 | 100·72 |
| U. P. .. | 1,08,00,000 | 1,07,05,249 | ... | 10,79,797 | 1,03,25,143 | 55,06,057 | 1,29,01,427 | 30,19,773 | 15·25 |
| Punjab .. | 19,05,000 | ... | ... | 6,06,867 | 12,08,133 | 1,01,700 | ... | 13,09,833 | 73·48 |
| Burma .. | 3,35,000 | ... | ... | 1,27,238 | 2,07,762 | 17,643 | 17,250 | 2,08,155 | 62·13 |
| Bihar & Orissa | 58,10,000 | 88,688 | ... | 1,11,582 | 55,76,730 | 17,73,348 | 17,25,608 | 56,24,470 | 90·8 |
| C. P. .. | 2,36,90,000 | 29,59,518 | 19,66,431 | 42,27,212 | 1,44,70,830 | 22,90,820 | 16,18,028 | 1,51,48,740 | 61·1 |
| Assam .. | 50,000 | ... | ... | ... | 50,000 | 4,830 | ... | 51,830 | 100·66 |
| TOTAL .. | 8,76,06,000 | 2,25,59,853 | 19,66,431 | 1,24,23,720 | 5,29,95,810 | 1,17,32,545 | 1,05,30,063 | 4,81,08,292 | 54·00 |

(a) Includes Rs. 16,37,310 representing interest charges on capital outlay on the Lloyd Barrage Scheme met out of this grant in 1924-25 and 1925-26.

(b) An unexpended balance of Rs. 375 of an extra grant of Rs. 1,000 provided by the Bengal Government for Famine Relief in 1921-22. In addition to the annual assignment of Rs. 2,00,000 prescribed in Schedule IV of the Devolution Rule was not transferred to the Fund, as such sum was not regarded as forming part of it.

(c) Includes Rs. 15,53,203 and Rs. 51,70,151 representing irrigation working expense and interest charges on capital outlay on certain irrigation works respectively met out of the grant in 1924-25 and 1925-26.

(d) Includes Rs. 11,31,939 withdrawn from the Fund in 1924-25 and 1925-26 to meet interest charges on capital outlay on certain irrigation works.

(e) Represents interest charges on advances taken from the Central Government for capital outlay on irrigation works and repayment of the advances met out of the grant in 1923-24 to 1925-26.

Percentages similar to that shown in column 10 of the above statement for the preceding two years are also given below.

| Province. | Percentages of closing balance of the Famine Insurance Fund at the end of the year to the annual assignment (aggregate). | |
|---------------------------|--|----------|
| | 1923-24. | 1924-25. |
| Madras | 62·55 | 53·93 |
| Bombay | 49·32 | 56·73 |
| Bengal | 100·41 | 103·91 |
| United Provinces | 76·15 | 31·04 |
| Punjab | 67·59 | 60·46 |
| Burma | 42·20 | 52·27 |
| Bihar and Orissa | 93·51 | 87·88 |
| Central Provinces | 50·98 | 60·10 |
| Assam | 104·72 | 107·27 |
| Total | 60·24 | 54·62 |

33. Special attention is invited to the persistent and rapid depletion of the Fund in the United Provinces. It seems quite clear that the Government of United Provinces does not intend to build up a Fund as a reserve to meet possible future expenditure on famine, but prefers to utilise the Fund on measures which may render famine less probable. While I recognise that the decision of the Governor is final, I am still of opinion that the Grant and Fund are in some cases being used in ways which are "*ultra vires*" of the statutory rules, and that this is mainly due to the fact that these rules require payments from provincial revenues to the Grant and Fund which are in excess of real requirements. I again suggest that the whole matter requires careful reconsideration.

34. *Administration of Grants.*—In paragraph 30 of my letter forwarding the Appropriation Reports for 1924-25 I stated that the constitutional

question whether the Legislative Council is competent to reduce or withdraw a grant already voted by it was under the consideration of the Government of India. It has since been held by the Government of India that, once a grant has been voted by a Legislature, there is no provision either in the Government of India Act or in the rules made thereunder which permits the grant being reduced on the motion either of the Government or of any member of the Legislature. According to this decision, transfers of fund by the Legislature from one voted grant to another, and reappropriations by the Government either from one voted grant to another or from a voted grant to a non-voted head, are to be regarded as unconstitutional as such transfers will have the effect of reducing the grant from which the transfer is to be made. During the year under review, withdrawal of funds from grants already voted was sanctioned by the Legislative Councils in Bombay and the United Provinces. Reappropriations from voted grants to non-voted heads were also sanctioned by the Government of India in respect of a grant for expenditure on Railways and by the Governments of Bombay, Bengal, the United Provinces, the Punjab, Burma, Bihar and Orissa, the Central Provinces and Assam. In my letters forwarding the Appropriation Reports for 1925-26 to the respective provincial Governments, I have pointed out the legal and constitutional position mentioned above.

35. After careful consideration of the above ruling, the Public Accounts Committee of the Punjab has expressed the opinion that the Government of India Act and the statutory rules are defective in this respect and that, when they are next revised, they should give the Legislative Council powers of reappropriation from one voted grant to another.

36. Under the existing rules votable expenditure on a "new service not contemplated in the budget" requires to be covered by a supplementary grant, even though it may be possible to meet the charge by reappropriation from savings under other subheads of the grant affected. It is obvious that the application of this rule necessitates a clear definition of a "new service". I brought this to the notice of the Government of India and it is understood that the matter has since been referred to the Secretary of State.

37. The system of departmental control referred to in paragraphs 34 and 32 of my letters forwarding the Appropriation Reports for 1923-24 and 1924-25 respectively has been in force in all provinces during the year under review and, in regard to central expenditure, from October 1926, but it has not yet had sufficient time to produce the desired effect. In the Central Provinces, where the system has been in force since June 1924, appreciable improvement has been brought about and in Madras, where it was given effect to on 1st April 1925, some improvement is also noticeable. It is, therefore, expected that, as departmental officers become more familiar with the details of the scheme, the difficulties which are now being experienced in reconciling the figures recorded by the departmental officers with those brought to account by the account officers, which is an essential feature of the scheme, will be overcome and that the control will be more effective.

38. It was recognised that the main difficulty experienced in the process of reconciliation was due to the fact that the preliminary accounts in account offices, from which the reconciliation is made, have hitherto been prepared on a district basis so that figures had to be collected from several registers before the reconciliation could be effected with the accounts maintained by the Heads of Departments. To obviate this difficulty, and with a view to make the scheme of control over expenditure successful, I have, with effect from the year 1927-28, introduced in all account offices the system of maintaining accounts on a departmental basis. The full effect of this scheme of control cannot be evident until the accounts of that year are available.

39. The reorganisation of the accounts on a departmental basis will also facilitate the separation of audit from accounts, which was mentioned in paragraph 46 of my letter forwarding the audit reports for 1924-25.

In most cases where the separation of audit from accounts has taken place, specially in the United Provinces, there has been considerable improvement in financial control and I have no doubt that, as the new accounts offices gain more experience, the scheme of separation will produce even more valuable results in this direction.

40. I mention below a few striking cases collected from different reports, which seems to indicate lack of adequate control over expenditure:

(1) *Central (Civil)*.—Paragraph 14 of Report mentions many cases in which supplementary grants were obtained, while the expenditure proved ultimately to be well within the original grants.

(2) *Bombay—Head (7) on page 61 of the report*.—Although the original grant was increased by a supplementary grant and additional appropriation sanctioned by competent authorities, the actual expenditure fell short of the original grant by 57.

(3) *Bengal*.—Paragraph 92 on page 74 of the Report gives an instance of defective control.

(4) *Punjab—Head A (Voted) on page 148 of the Report*.—A reduction of 97 was sanctioned by the competent authority, but this resulted in an excess of 68.

41. *Method of budgetting*.—A scrutiny of the Appropriation Reports in the year under review reveals a considerable number of cases of defective or overbudgetting. From the statement given below of the percentages of savings over total grants and appropriations in the year under review it appears that the evil of overbudgetting is most apparent in the Civil Budget estimates of the Government of India, and in the estimates framed by the Governments of Bombay, Punjab and Burma. In this connection a reference is invited to paragraph 125 of the Punjab Report. The main impression which this report makes upon me is that overbudgetting in the year under review was so excessive that Controlling officers must have felt there was little need for the exercise of close financial control.

| Province or Departments of the Government of India. | Percentage of savings. | | Total percentage of savings. |
|---|------------------------|-------------------|------------------------------|
| | Voted. | Non-voted. | |
| Central Civil | 22.50 | 3.55 | 14.09 |
| Army | .. | .03 | .03 |
| Railways | 7.92 | 1.79 | 6.57 |
| Posts and Telegraphs | 8.96 | 3.37 | 8.63 |
| Madras | 6.90 | 2.11 | 5.61 |
| Bombay | 18.26 | 7.94 (excess). | 14.96 |
| Bengal | 5.76 | 4.17 | 5.49 |
| United Provinces | 5.06 | 1.32 | 4.07 |
| Punjab | 13.41 | 6.44 | 12.10 |
| Burma | 6.92 | 16.19 | 8.33 |
| Bihar and Oissa | 5.83 | .46 (excess). | 4.46 |
| Central Provinces | 5.31 | 8.56 | 5.97 |
| Assam | 5.90 | 3.35 | 5.47 |
| Coorg | .. | .. | 13.67 |

The higher percentages in regard to the grants in the Civil Estimates of the Government of India and in the estimates of the Government of Bombay are mainly due to overbudgetting under "Loans and Advances". Omitting figures under this head, the percentages of savings over the total of other voted grants are 10 and 14 respectively. The estimate for the demand of the Central Government for "Loans and Advances" mainly depends on the requirements of the local Governments and the Central Public Accounts Committee has suggested that more reliable forecasts should be obtained from them. It is noticeable that budgeting has improved in departments which have been given their own Accounts Offices.

42 The most common defect in budgetting noticeable in almost all the provinces and in the departments of the Government of India is the over-budgeting of expenditure under "Pay of Establishment" and "Works"—both revenue and capital. In the case of the former, the general practice is to provide for the full financial liability on account of the pay of the sanctioned establishment, but experience has shown that, owing to casualties, transfers and other causes, the actual amount required to meet the cost of establishment almost invariably falls considerably below the estimate made on the above basis.

A rarer, but more flagrant, defect in the budgetting for establishment charges is to provide for the average cost of an establishment and not for the actual cost in a particular year.

Overbudgeting for Works expenditure is mainly attributable to a general tendency to make complete provision for all possible demands even though in some cases the probability of expenditure during the year in question is remote *e.g.*, in cases where the schemes have not been fully matured. Another cause of overbudgeting under this head is that no allowance is made in the budget for retardation of work by unforeseen circumstances which must operate to some extent.

To remove these defects in budgetting, the Central Public Accounts Committee recommended that lump deductions should be made in the budget under these heads based on the actual savings in preceding years. This method has been adopted in regard to estimates for Central expenditure and also by some provincial Governments, but in most cases, due probably to inadequate information as to past actuals, the lump cuts have been found to be inadequate.

In my letters forwarding the Reports for 1925-26 I have pointed out the general inadequacy of the cuts already made by some Governments and have recommended those provincial Governments, who have not yet introduced the system of lump cuts to adopt it.

Overbudgeting is also noticeable in many cases under "leave salaries" and I have invited attention to this defect, where necessary, in my letters to the provincial Governments.

43 In the Appropriation Report of the Government of the Central Provinces the Accountant General has endeavoured to indicate, by facts and figures, persistent overbudgeting, over a series of years, under numerous individual heads of appropriation. A scrutiny of these instances show that most of them are under pay heads mainly "Pay of Establishment".

The information thus given by the Accountant General ought to be of great value to the local Government and its Public Accounts Committee. The search for such information is, however, primarily the function of Government.

A few instances of such persistent overbudgeting will be found in notes against heads (12), (3) and (19) on pages 84, 89, and 143 respectively of the Appropriation Accounts of the Government of Central Provinces.

44 I mention below a few cases collected from the different Appropriation Reports which seem to indicate defective or overbudgeting:—

(1) *Central (Civil)*.—The note under Account II—Forest, of Grant 77 on page 413 of the report shows that the original voted provision of 14,24 was reduced by the surrender of 1,43 and that, even then, there was a saving of 1,81.

(2) *Posts and Telegraphs*.—Head 6 on page 82 of the Report shows that over the grant of 2,46 there was a saving of 1,40—nearly 57 per cent.

Page 93—Grant 23—Interest on Capital Outlay.—Against the original grant of 66.00 the expenditure amounted to 46.38. From the last sub-paragraph of paragraph 11 on page 8 of the report it will be seen that the A. G.

suggested 53,59 for this head, which itself was an overestimate, but the Government of India took a figure considerably above that suggested by the A. G. 4000

(3) *Bombay*.—An instance of overbudgeting will be found in paragraph 20 of my letter to the local Government (Enclosure VI).

(4) *Bengal*.—Page 83.—The appropriation for "Grants for Public Health purposes" was 15.08 while the expenditure was 12.23 only.

(5) *Punjab*.—Pages 100 and 101—Grant No. 3—Stamps.—A saving of about 19 per cent. over the total voted grant was mainly due to overbudgeting under the heads for Stamps supplied from Central and Provincial Stores. Against a provision of 51 for non-Judicial stamps there was a saving of 11 and against a provision of 55 for Judicial stamps the saving amounted to 13.

(6) *Bihar and Orissa*.—Page 146 of the report—26—Police A—Superintendence.—The original appropriation was 95 while the actual expenditure amounted to 1.40—i.e., about 47 per cent. in excess of the original appropriation.

45. In paragraph 35 of my letter forwarding the Appropriation Reports for 1924-25. I expressed the view that the submission of expenditure to the control of the Legislature ensures better financial control and that most Governments appear to attach little importance to the necessity of formal provision of funds to meet excess expenditure over non-voted appropriations. From the statement given below it will be seen that the position has not improved in the year under review.

| | Voted grants. | | | | | Non-voted appropriations. | | | | |
|----------------------|------------------------------|---|---|----------|----------|--------------------------------------|--|--|----------|----------|
| | Number of grants in 1925-26. | Number of grants in which excesses have occurred 1925-26. | Percentage of the number of grants in which excesses have occurred to the total number of grants. | | | Number of appropriations in 1925-26. | Number of appropriations in which excesses have occurred in 1925-26. | Percentage of the number of appropriations in which excesses have occurred to the total number of appropriations | | |
| | | | 1923-24. | 1924-25. | 1925-26. | | | 1923-24. | 1924-25. | 1925-26. |
| India | 89 | 18 | 13.08 | 16.67 | 20.22 | 91 | 27 | 22.22 | 17.14 | 29.67 |
| Madras | 33 | 2 | 11.43 | 5.26 | 6.06 | 32 | 5 | 25.81 | 31.43 | 15.62 |
| Bombay | 41 | 4 | 11.11 | 5.26 | 9.75 | 31 | 7 | 40.00 | 29.41 | 22.58 |
| Bengal | 30 | 2 | 18.52 | 6.90 | 6.66 | 30 | 8 | 17.86 | 20.00 | 26.66 |
| United Provinces .. | 30 | 8 | 21.43 | 21.43 | 26.66 | 33 | 9 | 12.50 | 40.74 | 27.27 |
| Punjab | 34 | 2 | 13.51 | 9.33 | 5.88 | 24 | 2 | 33.33 | 29.17 | 8.33 |
| Burma | 4 | 1 | .. | 7.89 | 25.00 | 1 | Nd | 12.00 | 23.68 | .. |
| Bihar and Orissa .. | 29 | 2 | 12.90 | 10.34 | 6.89 | 23 | 9 | 20.69 | 18.52 | 32.14 |
| Central Provinces .. | 37 | 5 | 13.89 | 8.33 | 13.51 | 26 | 7 | 8.70 | 14.81 | 26.92 |
| Assam | 33 | 3 | 28.13 | 12.56 | 9.09 | 23 | 4 | 29.63 | 21.43 | 14.28 |

46. *Expenditure in England*.—The possibility of securing uniformity of procedure regarding the method of making provision for English expenditure, and the question of delegating to the Home authorities the powers of reappropriation with regard to such expenditure, referred to in paragraph 36 of my letter forwarding the Appropriation Reports for 1924-25, are still under the consideration of the Government of India.

From notes VII (1), (2) and (3) on page 52 and VIII (1) and (3) on page 68 of the Posts and Telegraphs report it will be noticed that Authorities in England failed to comply with a request to adopt the new classification in regard to Posts and Telegraphs expenditure.

47. *Comparison of expenditure in the Reserved and Transferred Departments*.—It is often said that remissions of contribution are used mainly to increase expenditure on "Reserved" subjects. From the statement given below relating to the transactions of the Governments of Madras, United Provinces and the Punjab combined it appears that, as compared with the year 1921-22, there has been total increase of expenditure met from revenue

in 1925-26 on "Transferred" subjects of 1,62,94 while there has been a decrease of expenditure (excluding contributions) of 79,25 on "Reserved" subjects.

| Province. | Expenditure other than that not charged to Revenue and excluding refunds. | | | | | |
|---------------------|---|-------------|-----------------------|--------------|-------------|-----------------------|
| | Reserved (exclusive of contributions). | | | Transferred. | | |
| | 1921-22. | 1925-26. | Increase + Decrease — | 1921-22. | 1925-26. | Increase + Decrease — |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| Madras | 9,39,00,618 | 9,27,43,325 | —11,57,293 | 4,23,68,124 | 4,87,35,309 | + 63,67,185 |
| United Provinces .. | 8,72,56,187 | 7,87,28,326 | —85,27,861* | 3,51,84,632 | 3,83,28,615 | + 31,43,983 |
| Punjab | 7,59,49,652 | 7,77,19,856 | + 17,70,204 | 3,06,92,239 | 3,74,75,097 | + 67,82,851 |

*The heavy decrease in the United Provinces under 'Reserved' is mainly due to the variations under the following heads to the extent noted against each —

| Heads. | Increase + Decrease — |
|--|-----------------------|
| 8. Forest | —34,71 |
| C. Irrigation, etc.—Revenue Account (heads 14 and 15) .. | + 25,19 |
| 26. Police | —17,94 |
| 43. Famine Relief and Insurance | —31,27 |
| | —61,73 |

The remaining 23.55 made up of smaller variations spread over under several other heads.

48. From a further analysis of the figures relating to these three provinces, as shown in the statement below, it will be seen that the proportionate increase of expenditure upon the "Benificent Departments" devoted to the work of nation building has been nearly fourteen times as large as the proportionate increase of expenditure upon the needs of the ordinary "Civil Administration".

| | Madras. | | United Provinces. | | Punjab. | |
|----------------------------------|---|----------|-------------------|----------|----------|----------|
| | 1921-22. | 1925-26. | 1921-22. | 1925-26. | 1921-22. | 1925-26. |
| <i>Civil Administration.</i> | | | | | | |
| General Administration .. | 1,99,78(a) | 2,26,79 | 1,41,13 | 1,37,40 | 97,33 | 1,04,08 |
| Administration of Justice .. | 94,57 | 96,35 | 67,51 | 73,66 | 41,50 | 52,51 |
| Jails and Convict Settlements .. | 29,56 | 30,01 | 36,91 | 35,08 | 35,81 | 32,33 |
| Police | 2,00,40 | 1,87,87 | 1,83,82 | 1,65,88 | 1,11,50 | 1,07,57 |
| Ports and Pilotage | 54 | 34 | .. | .. | .. | .. |
| Miscellaneous Departments .. | 9,34 | 15,27 | 1,21 | 81 | 76 | 84 |
| Total .. | 5,24,10 | 5,56,63 | 4,30,58 | 4,12,83 | 2,89,90 | 2,97,33 |
| | Increase 6.19 per cent. Decrease 4.12 per cent. Increase 2.5 per cent. | | | | | |
| <i>Benificent Departments.</i> | | | | | | |
| | Grand Total Increase 1.77 per cent. | | | | | |
| Scientific Departments | 1,32 | 3,23 | 74 | 21 | 36 | 24 |
| Education | 1,43,24 | 1,87,45 | 1,53,13 | 1,86,53 | 88,40 | 1,41,84 |
| Medical | 58,47 | 59,66 | 24,03 | 30,91 | 31,81 | 35,33 |
| Public Health | 26,85 | 33,15 | 28,67 | 45,62 | 10,73 | 16,31 |
| Agriculture | 25,57 | 30,07 | 27,62 | 27,23 | 31,89 | 38,02 |
| Industries | 20,66 | 17,36 | 9,50 | 10,89 | 6,32 | 7,44 |
| Total .. | 2,76,11 | 3,30,92 | 2,43,69 | 3,01,42 | 1,69,51 | 2,39,18 |
| | Increase 19.85 per cent. Increase 23.66 per cent. Increase 41.1 per cent. | | | | | |
| | Grand Total Increase 26.44 per cent. | | | | | |

(a) This includes 54,68 on account of 'Allowances to District and Village officers' classified under Land Revenue in 1921-22. Similar charges in 1925-26 included in 'General Administration'.

I have also made a comparison of the expenditure (including expenditure not charged to revenue but excluding refunds) in all provinces. The statement is too large to reproduce but it shows that, except in Bombay and Burma, the expenditure on Transferred subjects in all provinces has increased more rapidly than that on the Reserved subjects.

V.—Public Accounts Committee.

49. Copies of the reports made by the Public Accounts Committees after considering the Audit and Appropriation Reports for the year 1924-25 have been received except that of the Public Accounts Committee of Burma. I have brought the non-receipt of that report to the notice of the local Government [*vide* Enclosures X (a).] In every case the Accountants General attended the meetings of the Public Accounts Committee. I was present at the meetings of the Central Public Accounts Committee, and also at the first meeting of the Public Accounts Committee of Bengal.

50. The reports presented by the several Public Accounts Committees give the impression that there has been a great improvement in the work of the Public Accounts Committees generally. The reports of the Public Accounts Committees of the Central Legislative Assembly and of the Legislatures of Madras, Bombay, Bengal, United Provinces and the Punjab seem to indicate that the audit and appropriation reports were scrutinised by the Committees concerned very thoroughly. The report made by the Public Accounts Committee of the Legislature of Central Provinces, however, indicates that the Committee merely considered the notes prepared by the Finance Department, and contains no evidence that the Committee attempted to cover the whole field of the appropriation accounts.

51. There was a considerable delay on the part of the local Government in placing the Audit Report on the transactions of the Government of Burma for the year 1923-24 before the Public Accounts Committee of the Legislature of that province. That Committee has accordingly suggested that, in future, these reports should be laid before the Committee without any note by the Finance Department as soon as possible after their preparation and that the Committee should then hold a preliminary meeting to select the points regarding which it requires further information. This further information should be given to the Committee orally by the Heads of Departments concerned at subsequent meetings. As the Committee now holds monthly meetings the examination of the Report will be spread over several consecutive months and the Committee will not pass orders on the Report until it has considered the Auditor General's comments thereon.

52. From paragraph 139 of the Appropriation Report of the Government of Bengal it will be noticed that, to facilitate the more effective working of the Committee, the Public Accounts Committee of the Bengal Legislative Council has recommended that the members of the Committee should be elected for the life-time of the Council, *viz.*, three years, with arrangements for members to retire by rotation. This recommendation cannot, however, be given effect to unless the statutory rules on the subject are suitably amended. It will be seen from paragraph 3 on page 99 of the United Provinces report that similar suggestions have also been made by the Public Accounts Committee of the Legislative Council of the United Provinces. I have suggested in both cases that, pending the modification of the statutory rules, effect can be given to this recommendation by establishing a convention in the respective Legislative Council that members of the Public Accounts Committee shall be elected by the Council in the manner suggested.

53. Two important decisions have been arrived at affecting the sphere of business of the Public Accounts Committee.

It has hitherto been held that the Public Accounts Committee was not concerned with matters relating to non-voted expenditure and to transactions relating to receipts. It has now been recognised by the Government of India that the Public Accounts Committee is entitled to offer in its reports criticisms and recommendations upon any matter discussed in the Audit and Appropriation Reports or in the Auditor General's forwarding

letter, whether such matter concerns the account of expenditure, voted or non-voted, or those of receipts. The above decision has been brought to the notice of all provincial Governments.

It has further been decided that cases arising in a "backward tract," in which the provisions of Section 72 D of the Government of India Act do not apply, do not come under the cognisance of the Public Accounts Committee or the Legislature, as the functions of these bodies are regulated by the rules framed under that section of the Act. This decision necessitated an amendment of rule 14 of the Auditor General's Rules, which amendment has since received the sanction of the Secretary of State in Council.

VI.—Declaration by the Governor-General, the Governor or the Governor in Council as regards classification of expenditure.

54. Declarations by the Governor General or the Governor in Council as regards the classification of expenditure have been mentioned in the various reports under the section "changes in classification." I have no special comments to offer in regard to this matter.

VII.—Restoration and authorisation by Governor-General or Governors.

55. In the year under review expenditure was certified and authorised, under Sec. 67 A (7) of the Government of India Act, by the Governor General in the case of Railway expenditure (para. 18 of the Appropriation Report of Railways in India) and by the Governors under Sec. 72D (2) (a) and (b) of the Act in Madras, the United Provinces, the Central Provinces and in Assam.

The total number of cases in which powers of certification and authorisation were exercised in the year under review was thirty-seven of which twenty-one occurred in Madras.

56. Out of the twenty-one cases pertaining to Madras, in seventeen cases expenditure was authorised by the Government under clause (b) of Section 72 D (2) of the Act. The clause contemplates that, only in those cases where there is an "emergency", may such expenditure as is "necessary for the safety and tranquillity of the province or for the carrying on of any department" be authorised by the Governor. While, therefore, I recognise that the decision of the Governor under this section of the Act is final, I venture to express the opinion that some of the objects, in regard to which the expenditure has been authorised, do not fulfil both the conditions which are necessary before the powers bestowed by those clauses can be exercised, *viz*, the cases must be "cases of emergency" and the expenditure thereon must be "necessary for the safety or tranquillity of the province or for the carrying on of any department". To illustrate my views, I invite attention to the following items of expenditure referred to in para. 35 of the Appropriation Report of the Government of Madras—

(1) Rs. 20,000—Expenditure on blocks in development in the Cinchona plantation.

(2) Rs. 2,00,000—Polavaram Island Project Scheme.

In the first case it was stated that the expenditure was essential for the upkeep of the plantations, which if left unattended, would suffer irreparable damage. The scheme relating to the second item had been in contemplation since 1916, but, at the beginning of the year, an immediate sanction to the execution of the scheme was asked for. Even if there be an element of emergency in these cases, it is difficult to conceive how the expenditure could be regarded as necessary "for the safety or tranquillity of the province or for the carrying on of any department."

(3) Rs. 1,00,000—Constructing locks and regulators.

(4) Rs. 4,400—Raising the Victoria College, Palghat, to a first Grade College.

(5) Rs. 44,150—Investigation of Hydro Electric Schemes.

Item (3) appears to be an ordinary item in any programme of irrigation works.

Item (4) needs no further explanation. Item (5) was merely an investigation. In these cases it is difficult to see that either of the two conditions laid down in the relevant clause of the Act is fulfilled.

VIII.—Disciplinary action.

57. In paragraph 18 *et seq* of my letter forwarding the Audit Reports for 1924-25 I commented upon the adequacy of the disciplinary action taken in connection with financial irregularities and observed that the action taken by most of the local Governments was not such as is likely to be sufficiently deterrent. The Reports for the year 1925-26 give the impression that the attitude of the local Governments in this matter is generally improving and that disciplinary action is being taken in most cases, not only against the offender, but also against the officer or officers responsible for lax supervision or neglect of rules. The severity of the action taken against the latter varies, however, from province to province. In some provinces deterrent disciplinary action is taken where actual dishonesty is proved but, where only slackness or ignorance is suspected, there is a tendency to deal with the persons concerned leniently. In some provinces the officer responsible for the loss has been held strictly to account whether he is suspected of dishonesty or not.

In Burma, in almost every case, the local Government has held strictly to account the officer or officers through whose negligence in supervision or disregard of orders the loss occurred. In one case mentioned in the Appropriation Report of the Punjab Government, the officer, through whose neglect the Government suffered a loss, was not only made to make good the loss but was also dismissed from the service. In another case mentioned in the same Report, even though there was no actual loss, the local Government stopped the increments of the officers responsible.

In somewhat similar cases, however, occurring in the Government of India, in Madras, Bihar and Orissa, the Central Provinces and Assam, reprimands, warnings and adverse comments in character rolls were deemed sufficient.

From paragraph 143 of the Appropriation Report of the Government of Bengal it will be seen that an officer responsible for a series of irregularities has not only not been punished but has been given a more responsible post.

In Bombay, after a perusal of all the cases mentioned in the Audit Report, I have gained the impression that the local Government is more reluctant to take disciplinary action in cases arising in the Public Works and Forest Departments than in cases arising in other Departments.

58. As regards frauds, embezzlements, and losses of Government money or stores, most of the local Governments are endeavouring to improve the state of affairs by taking suitable disciplinary action. The Governments of Punjab and Burma seem to have taken a firmer attitude in the matter than other local Governments. The administrative authorities of the Posts and Telegraphs Department are now taking firmer disciplinary action.

IX.—Audit Comments.

59. *Drawal of money in advance of requirements.*—In paragraph 19 of my letter forwarding the Audit Reports for 1924-25, I emphasised the necessity of taking measures to prevent the repetition of the irregularity of drawing money in advance of requirements. As already explained, the drawal of money in advance of requirements not only involves risk of embezzlements but also tends to interfere with budgeting and the control of the Finance Department or the Legislative over expenditure. Several instances of this kind of irregularity have been recorded in most of the Reports for the year under review. In some cases the orders of the local

Government have not yet been issued but, in those cases in which orders have actually been passed, nothing more than a mere warning or an adverse comment has been given. From paragraph 105 of the Appropriation Report of the Government of Bengal it appears that some disbursing officers are yet ignorant of the rule prohibiting the drawal of money in advance of requirements. In view of the serious nature of this irregularity it seems desirable that local Governments should consider whether more severe steps should not be taken to combat this evil. It also seems desirable that steps should be taken to bring the rule prominently to the notice of all disbursing officers.

60. *Stamps*.—It appears from the Reports of the year under review that irregularities and embezzlements in connection with stamps are increasing throughout India, and that many officers responsible for the custody of stamps do not realise the importance of the observance of the rules regulating their transactions. In view of the recent growth in the number of these irregularities and embezzlements it seems desirable that a firmer attitude should be taken against those persons who fail in their duty in connection with stamps. In forwarding the Reports to local Governments I have suggested, where necessary, the desirability of issuing a circular emphasising the fact that stamps are equivalent to cash and that irregularities in connection with stamps will be treated as severely as those arising in connection with cash.

61. *Need of audit of internal accounts*.—In paragraph 16 of my letter forwarding the Audit Reports for 1924-25, I expressed the opinion that, in view of the many serious irregularities brought to light during the course of local audit of the accounts of important offices and institutions, an extension of the sphere of audit in this direction will be of the utmost value. Several cases of financial irregularities since disclosed by local audits confirm the views then expressed above.

62. *Audit of receipts*.—In paragraph 50 of my letter forwarding the Audit Reports for 1924-25, I stated the extent to which the Government of India has asked me, under rule 12 of the Auditor General's Rules to undertake the audit of receipts. Since then, at the request of the Government of India, the audit of receipts and stores of sub-jails in Bengal, of certain institutions in Bihar and Orissa and of the receipts realised in certain offices in Burma have been undertaken by my officers.

63. *Audit of grants-in-aid*.—In paragraph 17 of my letter forwarding the Audit Reports for 1924-25 I stated the extent to which the audit of expenditure on account of grants-in-aid is conducted by the audit officers. The question of placing this audit on a better footing is now engaging my attention.

64. *Irregularities concerning Contracts*.—In this connection a reference is invited to paragraph 11 of my letter forwarding the Audit Reports for 1925-26. Further instances of such irregularities are mentioned below:—

- (1) Placing of contracts without giving sufficient notice or inviting tenders publicly.—paragraph 84 of the Appropriation Report on the Civil Accounts of the Government of India.
- (2) Commencement of work prior to acceptance of contract by competent authority.—paragraph 123 of the Appropriation Report of the Government of Bengal.
- (3) Unwarranted or unauthorised issue of materials to contractors or failure to enforce terms of contract.—paragraph 45 on page 88 of the Appropriation Report of the United Provinces Government and paragraph 91 of that of the Punjab Government.

X.—Miscellaneous.

65. *Stores*.—The important question of the reduction of the stores balance referred to in paragraph 32 of my letter forwarding the Audit Report for 1924-25 is continuing to receive the attention of the Railway and Posts and Telegraphs Department. Paragraph 65 of the Posts and

Telegraphs Appropriation Report shows that the balance of stores in the Indian Telegraph Department was further reduced by 19 lakhs. As will be seen from paragraph 122 of the Appropriation Report of the Railway Department the balance of stock of that Department was also further reduced by nearly two crores. The Reports however indicate that further reduction of balances of stock in these Departments is still possible.

The balance on 31st March 1926 shown in the stores account appertaining to the New Capital Project, Delhi, on page 491 of the Appropriation Report on the civil accounts of the Government of India seems to be capable of reduction and I have made certain suggestions to this end.

66. *Separation of audit from accounts.*—In paragraph 46 of my letter forwarding the Audit Reports for 1924-25 it was stated that in the United Provinces two departmental Pay and Accounts offices for Police and Education Departments and a third for dealing with the transactions of the Central Government occurring in that province had been set up in 1924. With a view to test the feasibility of the separation of audit from accounts in all the Departments of these provinces the following additional offices have been instituted with effect from 1st April 1926 :—

(a) A Chief Accounting office to deal with the compilation of the monthly civil accounts.

(b) Six Pay and Accounts offices to deal with the transactions of the following Departments :—

- (1) Land Revenue and General Administration,
- (2) Law and Justice,
- (3) Stamps, Industries, etc.,
- (4) Public Works,
- (5) Agriculture, Veterinary, etc.,
- (6) Medical, Jails and Public Health.

The Chief Accounting officer forms an integral part of the Finance Department of the local Government and he controls all Pay and Accounts offices in the United Provinces except the Central Pay and Accounts officer, which functions directly under the Government of India in the Finance Department.

During the experimental period the compilation of accounts will remain a Central subject but will be administered by the local Government, which will act in this respect as the Agent of the Central Government.

The work of these Pay and Accounts Offices is audited by an independent audit staff working under a Director of Audit who is responsible to the Auditor General in India.

Nine Pay and Accounts offices, *viz.*—4 in Calcutta, 3 in Delhi, 1 in Bangalore, and the one in the United Provinces referred to above, have been started to deal with the transactions of various civil departments of the Central Government.

A scheme of separation has also been introduced as an experimental measure on the East Indian Railway.

67. The advantages which are reported to have been derived from this system were mentioned in paragraph 46 of my letter forwarding the Audit Reports for 1924-25. Further advantages derived from it are indicated in paragraph 39 above. Although I am much impressed with the results of the working of this system for this short period especially in the United Provinces, I shall defer the expression of any final opinion on its success until reports for a complete year are available.

68. *Use of labour saving machines.*—In paragraph 48 of my letter forwarding the Audit Reports for 1924-25, I referred to the introduction of labour saving machines in the Railway and Posts and Telegraphs account offices. The use of these machines has since been extended to all State worked Railways, to some of the important Company worked Railways and

in several branches of the Posts and Telegraphs accounts department. Some machines have also been introduced in military accounts offices and in the offices of the Accountants General, Madras, Bombay and Burma.

69. Excluding the Bengal Nagpur and South Indian Railways, in regard to which no information is available at present in my office, altogether 116 machines, as detailed below, are now in use in various Railway offices.

| | |
|--|----|
| (1) Comptometers | 74 |
| (2) Hollerith Sets of Punchers, Sorters and Tabulators | 9 |
| (3) Power Sets of Punchers, Sorters and Tabulators | 4 |
| (4) Burroughs Calculating, Adding, and Adding and Listing machines | 4 |
| (5) Wahl Adding and Subtracting machines | 3 |
| (6) Remington Accounting Machines | 8 |
| (7) Millionaire | 1 |
| (8) Britannic Calculating Machines.. .. . | 4 |
| (9) Monroe Calculating Machines | 3 |
| (10) Dalton Machines | 6 |

It is too early to say which machine will ultimately hold the field for the performance of any particular form of work. No attempt has so far been made to compare the relative merits of the different machines used for the same kinds of work on different Railways. An exact estimate of the savings effected by the introduction of these machines is not possible. On some Railways they have actually led to a reduction in staff while in others they are said to have removed the necessity for additional staff. It is, however, reported that the net saving, after allowing for depreciation and maintenance charges, will amount to more than one lakh of rupees a year. The use of the Hollerith and Power machines renders feasible the creation of a Clearing House—see paragraph 73 (c) (i) below—which is expected to lead to considerable savings.

70. In the Audit and Accounts Offices under the Accountant General, Posts and Telegraphs, there are 128 machines of various kinds now in use. The most important use of labour saving machines in this department is in connection with the keeping of ledgers and accounts, for which 73 Remington Cross-adding machines are used. It has been found that the introduction of these machines increases the rate of posting, saves almost entirely the work of proving and generally leads to more accurate, more systematic and neater accounting. Ledger keeping with the help of these machines has been introduced into all Savings Bank sections of the Postal Audit offices, in which about two million accounts are maintained, into the Stores Ledger section and into the section in which the accounts of the Post Office Insurance Fund are maintained. It is under contemplation to maintain the accounts of the General Provident Fund with the use of these machines.

It has also been found possible to compile accounts by means of these machines. In connection both with ledger keeping and the compilation of accounts a few subsidiary calculating machines have been employed.

Fifty comptometers are in use in connection with the mechanical check of the lists of money orders issued and paid. This machine has also been used in checking large compilations of figures in connection with budget and other financial statements.

The remaining machines are used for miscellaneous purposes.

The possibility of further extensions of the use of these machines in the Posts and Telegraphs audit and accounts offices is under investigation.

The net saving in this Department, after allowing for depreciation, maintenance charges, etc., but excluding interest, comes to more than 3 lakhs of rupees.

71. In the Military Accounts Department nine Comptometers and one Remington Cross Accounts Machine are in use and as a result it has been found possible to dispense with the services of 12 men.

72. Five comptometers are in use in the offices of the Accountants General, Madras, Bombay and Burma. The possibility of an extension of the use of machines in Civil Account offices is being examined by the Accountant General, Madras.

XI.—Other important features.

73. I invite reference to the following important features of the several Reports :—

(a) (i) *Government of India—Civil*.—The finding of a departmental enquiry into certain comments in last year's Report on stores administration in New Delhi is set out in paragraph 89.

(ii) Delay on the part of the Government of India in obtaining the special orders of the Secretary of State prescribing the nature and extent of the audit to be applied to Secret Service expenditure under rule 9(3) of the Auditor General's Rules is brought to notice in paragraph 4 of my letter forwarding the Appropriation Report on the Civil Accounts of the Government of India.

(b) *Posts and Telegraphs*.—(i) Paragraph 26 of the report records a case of misappropriation by a Deputy Post Master of a Head Post office in which the precautions taken to evade detection are more complete than in any other case which has come to my notice.

(ii) Appendix I of the report contains a memorandum on the reconstitution of the accounts of the Indian Posts and Telegraphs Department as a result of the introduction of a commercial system of accounts in that Department. Troubles arising from impossibility of introducing commercial system of accounts in its entirety from 1st April 1925 are described in paragraph 18 of the Report. As a consequence, there were, in the year under review great divergences between appropriation and expenditure under detailed heads.

(c) *Railways*.—(i) Paragraphs 23 to 25 of the Report mention a most important experiment on the establishment of a Clearing House in India to deal with the apportionment of traffic between different railways.

(ii) Paragraphs 26 to 29 of the report draw attention to the constitution of an audit office for State Railway Collieries.

(iii) Paragraph 144 of the report brings to notice the measures which are being adopted to prevent illicit travelling by railways.

(d) *Army*.—(i) Paragraph 30 of the audit report prepared by the Director of Army Audit mentions a serious loss of nearly Rs. 5½ lakhs.

(ii) In paragraph 43 a still more serious case involving a loss of nearly Rs. 8½ lakhs is set out in detail because, although the case was very fully investigated, the disciplinary action taken seems to have been inadequate.

(iii) In paragraph 39 mention is made of the formation of a Central Disposals Organisation to dispose of obsolete and surplus stores.

(e) *United Provinces*.—(i) Paragraph 24 on pages 78 and 79 of the report brings to notice a very considerable loss sustained by Government in order to bear, on behalf of a University, a loss due to a change of mind on the part of the University authorities in connection with the purchase of a private press.

(ii) Para. 48 on pages 90 to 93 of the report records the result of investigations by the Director of Commercial Audit of the transactions relating to the sale of certain forest concerns of the Government of the United Provinces.

(f) *Punjab*.—Para. 133 of the report mentions a case of an embezzlement by a Tahsildar of a certain Sub-Treasury who was induced by a gang of swindlers to misappropriate money from the treasury.

(g) *Central Provinces*.—Paragraph 98 of the report brings to notice that the original forecast of the results of the Mahanadi Canal project will not be realised.

XII.—Commercial Audit.

74. In paragraphs 52-59 of my letter forwarding the Audit Reports for 1924-25, I submitted a brief review of the progress of various commercial concerns controlled by the Government of India and local Governments. As indicated in that letter, my commercial audit branch is being developed with a view to meet the growing demand from the Government of India and local Governments for that branch to undertake the work of introducing commercial systems and auditing the accounts of the commercial concerns under their control. That branch has taken up the audit of a large number of commercial concerns of the Government of India and the local Governments. From the beginning of the year 1927, it has taken over the audit of the accounts of the commercial concerns of the Government of Madras,—hitherto conducted by Messrs. Fraser and Ross, a firm of chartered accountants in Madras. An Officer of the Indian Audit and Accounts Service who is also an incorporated accountant has been stationed at Madras with the necessary staff to carry out this work. The commercial audit and accountancy work in Burma is at present conducted by Messrs. Allan Charlesworth and Co., a firm of chartered accountants, and I am making arrangements whereby my Director of Commercial Audit will take over this work in the near future.

I have already proposed to entrust the audit of the accounts of the Major Port Trusts in India to the Director of Commercial Audit, and the question is now being considered by the Government of India.

75. With a view to economy and efficiency, three commercial audit circles (Bombay, Madras, and Northern India) have been formed each with an officer of the Indian Audit and Accounts Service, trained in commercial accounting and auditing in charge. When the Major Port Trusts, and the commercial concerns of Burma, come under the audit control of the Director of Commercial Audit, two more audit circles will be formed with Calcutta and Rangoon as headquarters.

76. As stated in my last letter, I have placed an officer and staff under the control of the Director of Commercial Audit, to carry out, on my behalf, a test audit of the accounts of the Army Factories in India.

77. At present the Director of Commercial Audit is responsible for the local audit of the accounts of the following concerns and the preparation and submission of Audit Reports to the Government of India or local Governments:—

BOMBAY COMMERCIAL AUDIT CIRCLE.

Government of India.

Chapter 2.

Security Printing Press, Nasik Road.

Non-Chapter 2.

His Majesty's Mint, Bombay.

His Majesty's Mint, Calcutta.

Creamery, Anand.

Government of Bombay.

Chapter 2.

Distillery, Nasik Road.

Distillery, Khanapur.

Non-Chapter 2.

Central Stores and Workshops, Dapuri.

NORTHERN INDIA COMMERCIAL AUDIT CIRCLE.

Government of India.

Opium Factory, Ghazipur (Costing Section).
 Northern India Salt Revenue Department, Delhi.
 Imperial Institute of Veterinary Research and Dairy, Muktesar.
 The Agricultural Research Institute, Pusa.
 Imperial Cattle Breeding Farm, Karnal.
 Mathematical Instrument Office, Calcutta.
 Joint Hides Purchase Scheme, Cawnpore.

*Government of the Punjab.**Chapter 2.*

Arts and Crafts Depot, Lahore.
 Shahdara Tannery, Lahore.

Non-Chapter 2.

The Central Workshops, Amritsar.
 Jails of the Punjab.

*Government of Bihar and Orissa.**Chapter 2.*

Match Factory, Patna.

Non-Chapter 2.

Manufacturing Jail, Buxar.
 Manufacturing Jail, Bhagalpur.

Government of Bengal.

Cinchona Department.

MADRAS COMMERCIAL AUDIT CIRCLE.

Government of India.

Imperial Institute of Animal Husbandry and Dairying, Wellington.
 Imperial Institute of Animal Husbandry and Dairying, Bangalore.

*Government of Madras.**Chapter 2.*

Saw Mill, Russelkonda.
 Kerala Soap Factory, Calicut.
 Fisheries Cannery, Chaliyam.
 Nilambur Valley Forests, Nilambur.
 Mount Stuart Working Circle, Coimbatore.
 Industrial Institute, Madura.
 Industrial Engineers' Workshop, Madras.
 Ink Factory, Madras.
 Cinchona Plantation and Factory, Ootacamund.
 Chenat Nair Exploitation Scheme, Olavakode.

Non-Chapter 2.

Wynaad Forests, Manontody.
 Government Leather Trades Institute, Madras.
 Fruit Preserving Institute, Coonoor.

ARMY FACTORY TEST AUDIT CIRCLES.

Western Circle.

Harness and Saddlery Factory, Cawnpore.
 Clothing Depot, Shahjahanpur.
 Ammunition Factory, Kirkee.
 Gun Carriage Factory, Jubbulpore.

Eastern Circle.

Gun and Shell Factory, Cossipore.
 Metal and Steel Factory, Ishapur.
 Rifle Factory, Ishapur.
 Cordite Factory, Aruvankadu.
 Clothing Depot, Madras.
 Controller of Army Factory Accounts, Calcutta (Production Section).

78. A brief review of the working of the commercial concerns of the Central and provincial Governments during 1925-26 is given below :—

Security Printing Press, Nasik Road.

In para. 57 of my last letter I referred to the question of placing the accounts of the Press on a commercial basis and the deputation of an officer for that purpose. The Central Board of Revenue agreed to my proposal to instal an accounting system under the rules of Chapter 2 of the Account Code. An Officer working under the Director of Commercial Audit visited the concern and submitted a report giving effect to my proposals and he carried out an audit up to 28th February 1926. The Personal Ledger Account was opened from 1st April 1926. The Central Board of Revenue decided not to fix any limit for floating capital but to debit the Press with the cost of stocks and stores as an over-draft on Government bearing interest. The same procedure was to apply to working capital. I have pointed out the advantage of fixing a definite working capital over a variable over-draft, and the matter is now under the consideration of the Central Board of Revenue.

The net loss for the period 11th November 1925 to 31st March 1926 amounted to Rs. 1,14,085.

The loss includes interest on capital at 5.54 per cent. per annum.

His Majesty's Mint, Bombay.

The first accounts in commercial form and the report, viz., for the half-year ended 31st March 1927, are in course of preparation.

His Majesty's Mint, Calcutta.

As stated in para. 56 of my last letter an officer under the control of the Director of Commercial Audit was deputed to the Calcutta Mint to report on the existing system of accounts and to recommend a system of commercial accounts. This investigation was carried out between February and May 1925.

At the end of April 1926 another officer under the Director of Commercial Audit was detailed to introduce the new system of accounts at this Mint. The first audit report and accounts submitted since the installation of the commercial system of accounts was for the half-year ended 30th September 1926, and the report is under the consideration of the Government of India.

Creamery at Anand.

This concern was taken over from the Military Department to provide facilities for experimental work and the training of Indians in dairy work, with effect from 1st October 1925, but actual operations commenced in the latter half of November 1925. The period 1st October 1925 to 31st March

1926 shows a net loss of Rs. 17,931 inclusive of interest on capital which has been calculated for three months at 5·54 per cent. per annum.

The loss is mainly due to low production.

Nasik Distillery.

The accounts for the year 1925-26 disclose a net profit of Rs. 7,73,842 (inclusive of a debit for interest on capital of Rs. 1,61,510) as against Rs. 7,38,718 in 1924-25. The Distillery showed satisfactory progress in 1925-26. Production has appreciably increased though sales were slightly reduced. The percentage of gross profit to sales has increased from 36·7 in 1924-25 to 41·2 in 1925-26.

Khanapur Distillery.

The accounts for the year 1925-26 disclose a net loss of Rs. 8,529 as against a net profit of Rs. 33,220 for 1924-25. The interest charges for 1925-26 amount to Rs. 33,992-3-2 as compared with Rs. 26,570 in 1924-25. The loss is due to the following charges having been debited to the profit and loss account of 1925-26 though part of such loss should have been borne by previous trading periods.

- (1) Write off of Stores Rs. 12,498-12-10, being loss on revaluation of stores; a large quantity of old stores having been found unserviceable.
- (2) Write off of Stationery Rs. 413-3-1 being useless stock taken over from the late Khanapur Distillery Company.
- (3) Write off of Laboratory apparatus Rs. 356-13-8.
- (4) Write off of Steam Coal Rs. 2,022-8-7 being the value of unserviceable coal taken over from the Khanapur Distillery Company.

Dapuri Workshops.

The net loss for the year 1925-26 is Rs. 3,295 as against Rs. 3,879 for 1924-25 and is mainly due to the fact that the workshop was working below capacity. The output amounted to Rs. 2,80,319. Interest on capital charged during 1925-26 amounts to Rs. 17,839, as against Rs. 18,429 in 1924-25.

Opium Factory (Costing Section), Ghazipur.

As indicated in my last letter a system of Cost Accounts has been introduced at the Opium Factory, and the Director of Commercial Audit conducts the audit of the costing section.

Northern India Salt Revenue Department.

The results of the trading for the year 1925-26 show a gross profit of Rs. 9,94,812 and a net loss of Rs. 3,34,032 inclusive of interest on capital, on the basis that the royalties and compensations debitable to manufacture for the year amounted to Rs. 3,27,038. According to a recent decision of the Government of India the amount to be taken into consideration on account of treaty payments and royalties in fixing the cost price of salt should be Rs. 3 lakhs *plus* the actual royalty paid in the preceding year. The amount of royalties and compensations debitable to manufacture according to this decision is Rs. 9,22,426. If this figure is included in the accounts the net result of the manufacturing branch of the department would be a net loss of Rs. 9,29,419.

Imperial Institute of Veterinary Research and Dairy, Muktesar.

The local audit of the accounts of the Institute and Dairy was hitherto conducted by the Examiner of Local Fund Accounts, United Provinces. I decided that the responsibility for introducing a proper system of accounts in the Institute and for the audit thereof should rest with the Director of Commercial Audit. An inspection of the transactions of the year 1925-26 was undertaken by an officer working under the Director. The inspection report revealed a serious financial irregularity amounting to over Rs. 41,000. This matter was dealt with in a confidential report which I forwarded to the Government of India.

The Director of Commercial Audit prepared a system of accounts in commercial form for the Dairy which was forwarded to the Agricultural Adviser to the Government of India in October 1926. In the audit and inspection report for 1925-26 referred to above, it was recommended that the system should be introduced with retrospective effect from 1st July 1926. It is not yet known whether the system has been introduced.

The Agricultural Research Institute, Pusa.

At the request of the Government of India I arranged that an officer working under the Director of Commercial Audit should examine and report on the system of accounts for this Institute with a view to the introduction of a commercial system of accounts. This work was duly carried out and the Government of India has recently accepted my proposals. It has been arranged that the Director of Commercial Audit will in future be responsible for audit.

The Imperial Cattle Breeding Farm, Karnal.

The accounts for the year 1925-26 disclosed a loss of Rs. 16,030 as against Rs. 28,976 in 1924-25. The loss includes interest on capital at 6 per cent. per annum, leave and pensionary charges, etc. Interest on capital for the year amounted to Rs. 19,120.

Mathematical Instrument Office, Calcutta.

A commercial system of accounts has been introduced with effect from 1st April 1927.

Arts and Crafts Depot, Lahore.

The accounts for the year 1925-26 showed a profit of Rs. 560 as against a net loss of Rs. 4,338 for 1924-25. Interest on capital was charged at 6 per cent.

Shahdara Tannery, Lahore.

The year 1925-26 shows a loss of Rs. 99,284 as against Rs. 46,676 in 1924-25. The greater portion of the loss was due to floods which seriously affected tanning operations.

Interest on capital has been charged in the accounts at 6 per cent.

The Central Workshops, Amritsar.

A commercial system of accounting was introduced at this workshop on 1st April 1927.

Jails of the Punjab.

A system of commercial accounts has been drawn up for the manufacturing sections of these jails, and an officer working under the control of the Director of Commercial Audit will shortly supervise the introduction of the system.

Match Factory, Patna.

The Demonstration Match Factory at Gulzarbagh was started by the Government of Bihar and Orissa on the 28th July 1925 with the following objects in view:—

- (a) To show that good matches could be produced at a profit in a well-equipped factory.
- (b) To enable persons to see all the best types of match machinery in action.
- (c) To train any person who desires to learn how to make matches in an up-to-date manner.

The first accounts of the factory for the period ending 30th September 1926 showed a net loss of Rs. 15,634-9-10.

Manufacturing Jails (Buxar and Bhagalpore.)

A quasi-commercial system has been introduced recently at these jails and an audit will shortly be conducted by an officer of the Commercial Audit Branch.

Cinchona Department, Bengal.

An officer was recently deputed to examine and report on the existing system of accounts of the Bengal Cinchona Department, with a view to introduce a commercial system of accounts for that Department. The officer has since completed his investigation.

Imperial Institute of Animal Husbandry and Dairying, Wellington.

The net financial result for the year was a loss of Rs. 8,340 inclusive of interest charges, as against Rs. 9,600 during 1924-25. Taking into account indirect charges also on account of interest leave and pension liabilities, audit fee, the aggregate loss is Rs. 21,014 as against Rs. 21,928 in 1924-25. The loss, which is mainly under the head "milk," is due to the following causes :—

- (1) Re-valuation of cattle resulting in a decrease of Rs. 4,290. This loss was abnormal and unlikely to recur.
- (2) Contagious abortion among the herd which affected appreciably the milk yield of the year.
- (3) Prevalence of Jhones disease.

Imperial Institute of Animal Husbandry and Dairying, Bangalore.

The accounts for 1925-26 showed a loss of Rs. 53,539 after the inclusion of interest on capital, leave and pensionary charges, and audit fee. Losses on the production and sale of dairy produce alone amounted to Rs. 36,460 as against Rs. 26,690 in 1924-25. The loss is mainly due to—

(a) The inoculation of animals. A serious loss of Rs. 12,500 resulted from the inoculation of animals as a preventive against Jhones disease. About 100 healthy animals were inoculated with a vaccine containing Tubercle Bacilli between 1st and 10th October 1925 by an officer of the Imperial Institute of Veterinary Research, Muktesar, with the approval of the Imperial Dairy Expert. This inoculation resulted in the death of most of the animals. I have drawn the attention of the Government of India to this matter.

(b) The prevalence of Jhones disease and foot and mouth disease during the year. The loss in the milk yield due to this cause was Rs. 5,225. The book value of the animals whose death was due to Jhones disease amounted to Rs. 3,200.

(c) Special repairs to tramway lines costing Rs. 2,230.

Concerns of the Government of Madras.

The Government of Madras has now agreed to my proposals whereby interest on capital should be included in the accounts of concerns from the date of commercialisation. The rate of interest charged in 1925-26 was 5.20 per cent. as against 6.08 in 1924-25.

Saw Mill, Russelkonda.

The net loss for the year, exclusive of interest on capital, amounted to Rs. 895 as against a loss of Rs. 1,895 in 1924-25. Interest on capital at 5.20 per cent. amounted to Rs. 23,201-9-0.

The loss is due to the fact that the Mill was closed for more than 7 months during the year under review. The average wastage on conversion during the year is practically the same as in 1924-25, viz., 62 per cent. This high rate is due to inferior timber extracted.

Kerala Soap Factory, Calicut.

The profit for 1925-26 exclusive of interest on capital is Rs. 16,722 as against Rs. 23,164 in 1924-25. Interest on capital for 1925-26 calculated on the mean of the opening and closing balances of each quarter was Rs. 18,300.

Fisheries Cannery, Chaliyam.

The net loss for the year 1925-26 exclusive of interest on capital was Rs. 4,822 as against Rs. 7,432 in 1924-25. Interest on capital at 5 20 per cent. amounted to Rs. 5,758. The heavy accumulation of stocks and poor sales necessitated the closing down of canning operations during 1925-26. The local Government has sanctioned the continuance of the Cannery up to 31st March 1927.

Nilambur Valley Forests.

The year 1925-26 shows a profit of Rs. 1,97,572 (inclusive of interest on capital amounting to Rs. 23,585) as against a profit of Rs. 1,58,091 in 1924-25. This includes a profit on the Beypore Saw Mill of Rs. 74,288.

Mount Stuart Working Circle.

The accounts for 1925-26 show a net profit of Rs. 18,961 inclusive of interest on capital, as against a net profit of Rs. 4,230 in 1924-25. Interest on capital amount to Rs. 23,281 during 1925-26.

There has been a reduction of overhead charges from annas -/11/5 per cft. in 1924-25 to annas -/9/10 per cft., but the turnover shows a reduction.

Industrial Institute, Madura.

The accounts for the year disclosed a loss of Rs. 8,130 exclusive of interest on capital. The interest on the mean of the opening and closing capital balances for the year amounted to Rs. 24,698.

Industrial Engineers' Workshop, Madras.

The net profit for the year 1925-26 amounted to Rs. 9,080 exclusive of interest on capital, as against Rs. 4,237 in 1924-25. Interest on the mean of the quarterly balances at 5 20 per cent. per annum amounted to Rs. 6,530.

Industrial Institute (Ink Factory), Madras.

The loss for 1925-26 amounted to Rs. 1,604 exclusive of interest on capital, as against a net profit of Rs. 3,110 for 1924-25. Interest on the mean of the quarterly balances at 5 20 per cent. amounted to Rs. 1,385 in 1925-26.

Cinchona Plantation and Factory, Ootacamund.

The net profit for the year 1925-26, including a debit for interest on capital of Rs. 61,911, amounted to Rs. 1,79,103 as against Rs. 3,28,115 in 1924-25. Interest on capital amounting to Rs. 79,569 was not charged in 1924-25. There was a reduction of Rs. 78,000 in gross profits as compared with 1924-25, which is chiefly due to the low valuation of Quinine Sulphate at 31st March 1926, and a reduction in sales of Rs. 70,000.

Chenat Nair Exploitation Scheme, Olavakode.

The loss for the year 1925-26 amounted to Rs. 35,383 and the loss for the Saw Mill amounted Rs. 88,695 both exclusive of interest on capital which amounted to Rs. 25,608 at 5 20 per cent. per annum. The loss for 1924-25 amounted to Rs. 1,23,189. The working results are far from satisfactory. Sales have been poor, and there has been heavy accumulation of stocks.

Wynaad Forests.

The net profit for 1925-26 exclusive of interest on capital is Rs. 19,217 as against Rs. 44,249 for 1924-25. Interest on the mean of the opening and closing balances of each quarter at 5·20 per cent. amounted to Rs. 20,233. The cost of production is annas -7/5 per cft. as against annas -8/2 in 1924-25. This is mainly due to reduction of overhead charges as the result of increased felling.

Government Leather Trades Institute, Madras.

The year 1925-26 shows a loss of Rs. 55,732 exclusive of interest on capital, as compared with Rs. 45,380 in 1924-25. Interest on capital on the mean quarterly balances at 5·20 per cent. is Rs. 4,907. The sales of leather in 1925-26 amount to Rs. 12,220 as compared with Rs. 5,997 in 1924-25 and Rs. 5,540 in 1923-24.

Fruit Preserving Institute, Coonoor.

During 1925-26 the Institute was closed down. The local Government decided that in future only a liquidation account should be prepared. The loss for the year, exclusive of interest on capital, amounted to Rs. 17,204 as against a loss of Rs. 23,680 for 1924-25. Interest on capital at 5·20 per cent. amounts to Rs. 8,022. The sales for the year amounted to Rs. 8,712 as against Rs. 17,980 for 1924-25.

Army Factory, Test Audit Circle.

79. An officer and staff working under the control of the Director of Commercial Audit conducted a test audit of the accounts of the Army Factories. During 1925-26, they concentrated on costing efficiency and internal control matters. Numerous minor irregularities were brought to the notice of the authorities concerned, together with general notes on improvements recommended in the accounting system.

XIII.—Tours, Test Audits and Inspections.

80. In 1926-27 I visited the following offices:—

- (1) Office of the Accountant General, Bengal.
- (2) Office of the Accountant General, Posts and Telegraphs.
- (3) Audit Office, East Indian Railway.
- (4) Audit Office, Eastern Bengal Railway.
- (5) Office of the A. G., Bihar and Orissa.
- (6) Office of the Comptroller, Assam.
- (7) Office of the Director of Audit, U. P. and experimental Pay and Accounts offices in these provinces.
- (8) Office of the Accountant General, Punjab (twice).
- (9) Office of the Deputy Director of Army Audit, Rawalpindi.
- (10) Office of the Controller, Military Accounts, Rawalpindi.
- (11) Office of the Accountant General, Bombay.

In all provinces I discussed important matters with the local Governments and in Bengal I attended a meeting of the Public Accounts Committee.

81. The following offices have been inspected by the Deputy Auditors General since the report made in paragraph 60 of my letter forwarding the Audit Reports for 1924-25:—Offices of the Accountants General, Bihar and Orissa, Madras, Burma, Railways, Telegraph Check Office, Calcutta, Deputy Accountant General, Posts and Telegraphs, Telegraph Branch, Calcutta, Deputy Accountant General, Posts and Telegraphs, Nagpur.

82. Since the report contained in paragraph 61 of my letter forwarding the Audit Reports for 1924-25 the following additional information has been received regarding the audit performed during 1925-26 by the Peripatetic Staff of the Military Test Audit Department:—

(a) 13 units and formations were locally audited during 1925-26 in addition to the 159 mentioned in the letter referred to above.

(b) One hundred and forty-one units and formations were locally audited during 1926-27.

(c) The test audit work of the Stationery Staff during 1926-27 was divided into three cycles of 4 months each. All sections except the Officers' Sections were test audited during the year.

(d) The annual audit of the Military Accountant General's Pay and Army List Sections and the audit of the *Fauji Akhbar* was carried out by the Director of Army Audit during 1926-27.

XIV.—Secretary of State's orders on the Appropriation Reports and on other miscellaneous matters.

83. A reference is invited to para. 44 of my letter No. 700-Admn./270-26, dated 9th July 1926, forwarding the Appropriation Reports for 1924-25. I again invite attention to the fact that I have not yet received orders on the points raised in the following paragraphs of my letters forwarding the Appropriation Reports for 1923-24 :

(a) The suggestion made in para. 16 of letter No. 929-Admn./228-25, dated the 8th July 1925, that all authorities in India should be informed that, when the Auditor General decides that a reference to the Secretary of State is necessary, such reference should be made with reasonable promptitude.

(b) The comments made in paras. 25 to 29 of the same letter regarding the utilisation of the Famine Insurance Grant and Fund.

(c) The question raised in para. 46 of my letter forwarding the Appropriation Reports for 1924-25, as to whether the Auditor General should not be given the right of direct access to the Secretary of State, or in the alternative, whether the Secretary of State would not be pleased to make a clear pronouncement as to the nature of the cases in which the Auditor General may require the Government of India to make a reference to the Secretary of State on his behalf.

84. I also invite special attention to the case mentioned in para. 46 of the Appropriation Report on the Civil accounts of the Government of India for 1925-26, forwarded herewith, and respectfully bring to the notice of the Secretary of State the fact that my comment regarding the defect in rule 8 of the Fundamental Rules was not referred to him by the Government of India.

I have the honour to be,

Sir,

Your most obedient servant,

M. F. GAUNTLETT,

Auditor General India.

No. 1072-Admn./302—27.

Copy forwarded for information to all local Governments and the Accountants General, the Director of Audit, United Provinces, the Comptroller, Assam, Examiners of Press and Customs Accounts, Director of Army Audit, Audit Officers, Indian Stores Department, Bombay Development Scheme and Lloyd Barrage and Canals Construction.

C. W. C. CARSON,

Controller of Civil Accounts.

DELHI;

The 26th July 1927.

SCHEDULE.

Reports for the year 1925-26.

1. Audit and Appropriation Accounts of the Central Government (Civil), prepared by the A. G. C. R.
 2. Appropriation Accounts of the Army, Marine and Military Engineer Services, prepared by the Financial Adviser, Military Finance.
 3. Audit Report on the Appropriation Accounts of the Army, Marine and Military Engineer Services, prepared by the Director of Army Audit.
 4. Audit and Appropriation Report on the accounts of the Posts and Telegraphs Department, prepared by the Accountant General, Posts and Telegraphs.
 5. Audit and Appropriation Accounts of Railways in India, prepared by the Accountant General, Railways.
 6. Audit and Appropriation Accounts of the Government of Madras, prepared by the Accountant General, Madras.
 7. Appropriation Report on the accounts of the Bombay Presidency (including Sind), prepared by the Accountant General, Bombay.
 8. Audit and Appropriation Accounts of the Government of Bengal, prepared by the Accountant General, Bengal.
 9. Appropriation Accounts of the Government of United Provinces, prepared by the Director of Audit, United Provinces.
 10. Audit and Appropriation Accounts of the Government of Punjab, prepared by the Accountant General, Punjab.
 11. Appropriation Report on the Accounts of Burma, prepared by the Accountant General, Burma.
 12. Appropriation Report on the accounts of the Government of Bihar and Orissa, prepared by the Accountant General, Bihar and Orissa.
 13. Audit and Appropriation Accounts of the Government of Assam, prepared by the Comptroller, Assam.
 14. Appropriation Report on the accounts of the Government of Coorg, prepared by the Accountant General, Madras.
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Enclosure I.

FROM SIR FREDERIC GAUNTLETT, K.B.E., C.I.E., I.C.S., AUDITOR GENERAL IN INDIA, TO THE SECRETARY TO THE GOVERNMENT OF INDIA, FINANCE DEPARTMENT, SIMLA, No. T.-571-ADMN./K. W.-34-27, DATED THE 14TH JULY 1927.

SUBJECT.—*Audit and Appropriation Accounts of the Central Government (Civil) for the year 1925-26.*

With reference to Rule 15 (a) of Auditor General's rules framed under Section 96-D (1) of the Government of India Act, I have the honour to transmit herewith two copies of Audit and Appropriation Accounts of the Central Government (Civil) for the year 1925-26, prepared by the Accountant General, Central Revenues, for submission to the Public Accounts Committee and for necessary action by the Government of India. They deal with Central civil transactions (excluding those relating to Railways and Posts and Telegraphs) booked and audited not only by the Accountant General, Central Revenues, but also by other Audit and Account Officers. The results of the audit conducted by the Examiners of Customs and Press Accounts are also included.

2. Two copies of the accounts of receipts and disbursements of the Secretary of State and the High Commissioner for India on account of the Central Government under the heads other than those relating to Military Services for the year 1925-26 together with two copies of the Appropriation Accounts, and the reports thereon prepared by the Auditor of the Indian Home Accounts, are also forwarded herewith.

3. I take this opportunity of bringing to notice the following cases which have been under the consideration of the Government of India for a considerable time :—

(a) In August 1921 the Government of India referred to me a case in which certain officers of a provincial Government failed to confiscate one-third of the assignment of land revenue of some villages which under orders of the local Government was to be so confiscated. In this connection I suggested that the Government of India should consider the question of issuing under their powers of superintendence, direction and control a revised set of rules governing the powers of provincial Governments in respect of alienation of land or assignment of land revenue, a reserved provincial subject. This question has been under the consideration of the Government of India since 1910. In December 1921 the Government of India informed me that the revision of the rules was under consideration of the Revenue and Agriculture Department and they hoped to finish it during that month. No final decision has yet been received although reminders were issued from time to time. The information furnished to me in reply to my reminders is as follows. In September 1922 I was informed that the consideration of the Revenue matter was deferred until the Incheape Committee's report was issued. In June 1923 it was stated that the matter was still under consideration and a reference would be made to local Governments. In January 1924 it was said to be before the Council. In January 1925 I was given to understand that the matter was kept in abeyance pending receipt of the recommendations of the Constitutional Reforms Committee. In May 1925 it was stated that the file was recirculated to Hon'ble Members. As a result of subsequent reminder in August 1925 it appeared that the revised draft of the rules was circulated to local Govern-

ments and their replies were awaited. A reminder in September 1926 elicited a reply that the views of the local Governments had since been received and are under consideration in the Department of Industries, Health and Lands.

- (b) In continuation of my suggestions on the system of payment by means of warrants for railway tickets purchased by, or for the use of, Police Officers travelling on duty, I brought to the notice of the Government of India, in July 1919, certain frauds which occurred in connection with the use of the Railway warrants by the Military Department and suggested that the frauds not only emphasised the need of additional precautions but also indicated the dangers inherent in the warrant system. In May 1922 I was informed that it was proposed to consider the present system of issuing warrants and credit notes for military traffic by a joint Committee consisting of Military, Police and Railway Departments. The Committee was appointed in 1924 and in September of that year I was informed that it had made a report to the Government of India. In April 1927 the Government of India issued orders on the system of Railway warrants or credit notes in the case of Police Department only. A reminder in May 1927 has elicited a reply that the matter relating to the issue of warrants and credit notes for military traffic is still under the consideration of the Army Department.
- (c) A certain provincial Government delegated to the High Commissioner for India the power of re-appropriation of funds from a unit of appropriation under a major head to the corresponding unit under another major head within the same grant. As the delegation seemed to be *ultra vires* of Rule 38 of the Devolution Rules and as the matter might affect other provinces also, I submitted this case to the Government of India in October 1923 for an authoritative ruling. In March 1924 I was informed by the Government of India that under existing Rule 38 of the Devolution Rules provincial Governments were not competent to delegate to the High Commissioner powers of re-appropriation from one major head to another within the same grant and that the Government of India were approaching the Secretary of State with a view to Devolution Rule 38 being suitably amended so as to permit the delegation by the Finance Department of provincial Governments to the High Commissioner of any powers of re-appropriation which they themselves enjoy under that rule. In his despatch No. 26-Financial, dated the 23rd October 1924, the Secretary of State accepted the proposals of the Government of India to the amendment of Rule 38 of the Devolution Rules but pointed out that the extent to which the High Commissioner would be able to avail himself of these powers would be clearly dependent upon the procedure adopted in regard to the grant for expenditure of his office. He also suggested to the Government of India to consider in this connection certain powers of re-appropriation in the case of voted expenditure incurred by him on behalf of provincial Governments. In April 1925 the Government of India invited the opinion of the provincial Governments on this matter. I have not yet received any final orders on the subject.
- (d) In paragraph 5 of my letter forwarding Audit and Appropriation Accounts of the Central Government (Civil) for 1924-25, I drew attention to a case of very long and serious delay in the consideration of a question referred by me to the Government of India on the subject of revision of electric installation and current charges in the residences of Heads of Provinces. I understand that a despatch on the subject has since been sent to the Secretary of State.

4. I also desire to draw attention to the following case relating to the audit of Secret Service expenditure, an early settlement of which is most desirable.

Under Rule 9 (iii) of the rules framed by the Secretary of State in Council under Section 96-D (1) of the Government of India Act, the Auditor General shall have authority, subject to any orders of the Secretary of State in Council prescribing the nature and extent of the audit to be applied to specified classes of expenditure, to frame rules in all matters pertaining to audit; particularly in respect of the method and extent of audit and the raising and persistence of objections. Rule 17 of the rules referred to above provides that 'the Auditor General shall have power to require that any books papers or writings relating to the accounts audited by the Audit Department shall be sent for inspection by him or by any other officer of the Indian Audit Department provided that if the Governor General in Council or the local Government, as the case may be, certifies that the documents in question are secret the Auditor General or other officer, as the case may be, shall accept, in lieu of such documents and as a correct account of the facts stated therein, a statement certified by the Governor General in Council or the local Government.'

In annexure 14 of my Report of an enquiry into the possibility of assimilating Indian Appropriation Reports to the corresponding British Reports I suggested the necessity of issuing certain detailed instructions regarding the audit and accounting of Secret Service expenditure. A few of the main points requiring settlement were—

- (a) A clear definition should be prescribed, in consultation with the Auditor General, of what may be treated as secret expenditure in the estimates and appropriation accounts.
- (b) A complete list should be prepared of all items of expenditure included in each of the various central grants which may be covered by the prescribed definition of secret expenditure.
- (c) The procedure for the audit of secret expenditure would be determined by the Auditor General.
- (d) For each grant the Administrative Department should prescribe, in consultation with the Finance Department, the authority on whose certificate the total expenditure brought to account against a secret expenditure sub-head of the grant is to be admitted in audit against that sub-head.
- (e) The form of certificate to be recorded by the responsible controlling authority should be prescribed.

The recommendations made by me in the Enquiry Report were accepted generally by the Government of India. In July 1925 I submitted to the Government of India a set of draft rules for the regulation of Secret Service expenditure. These rules were discussed in an inter-departmental conference held on 11th January 1927, but so far I have not heard that these, or any alternative, rules have been sent to the Secretary of State for consideration.

5. I also append to this letter a consolidated statement (Statement 'A') in which the expenditure from all central Grants, whether voted or non-voted, is set forth. It will be seen that in the aggregate the actual expenditure was 19,37 lakhs less than the final grant. Statements 'B' and 'C' enclosed show the excess over 'voted' and 'non-voted' grants which require the sanction of the Legislative Assembly and of the Finance Department of the Government of India, respectively.

6. I desire to offer the following comments on the Audit and Appropriation Accounts.

7. *Paragraph 3—(a) Third sub-paragraph.*—A reference is invited to paragraph 5 of the Government of India, Finance Department, Resolution No. D-1163-A., dated the 5th May 1927.

(b) *Fourth sub-paragraph.*—The accounts maintained by the Accounts Department are the official accounts and must be accepted. It is for the Controlling officers to prove to the Accountant General that his figures are incorrect and thus induce him to correct his figures.

8. *Paragraph 5.*—The large savings under 'Loans and Advances' are mainly due to overbudgeting under 'Civil Advances' and 'Advances to the Provincial Loan Fund'—especially under the latter. Similar overbudgeting under these heads occurred in 1924-25 and it attracted the attention of the Committee of that year. The Public Accounts Committee may desire to emphasise again the necessity of obtaining from the local Governments a more reliable forecast of loans required by them.

Omitting the figures of 'Loans and Advances' from the table in paragraph 4, the percentage of savings in the voted grants comes to 10 which is 6 per cent. worse than the results obtained in 1924-25. This is much larger than the percentage which is regarded as a reasonable saving on a close estimate. I may remark that in England the Comptroller and Auditor General in commenting on the Civil Services Appropriation Accounts for 1925-26 pointed out that the savings were 1·5 per cent. only.

The Public Accounts Committee may desire to investigate the system of budgeting under those grants in which the largest percentage of savings occur, as shown in paragraph 6 of the Report, specially under grants 17, 18, 20, 55, 70, 71 and 81 in regard to which similar savings occurred in 1924-25 a so. The savings were over 40 per cent. of the original grant in grants 71, 83 and 87, between 30 per cent. and 40 per cent. in grants 82, 86 and 88 and between 20 per cent. and 30 per cent. in grants 20, 55, 70, 81 and 86-A. The supplementary grants under 55, 70, 71 and 81 were not required unless they were for 'new services'.

9. I have endeavoured to ascertain whether the savings under grants which come under the scrutiny of Pay and Accounts Officers are noticeably smaller than those under other grants. The comparison is admittedly inadequate, but the figures have some value. Omitting grant No. 86 (Capital Outlay on New Delhi) the savings under voted expenditure in the former grants amount to 7·9 per cent. If grant No. 55 (Agriculture) also be omitted the savings amount to 5·6 per cent. The savings under voted expenditure in the other grants omitting grant No. 88 (Loans and Advances bearing interest) the savings amount to 12·9 per cent.

10. *Paragraph 8.*—The orders of the Government of India are contained in paragraphs 3 and 8 of the Finance Department Resolution No. D.-1163-A., dated the 5th May 1927. The Committee may like to express the hope that future Appropriation Accounts will indicate better results.

11. *Paragraph 9 and sub-paragraph (i) of paragraph 13.*—The attention of the Public Accounts Committee is invited to the excesses over voted grants mentioned in this paragraph which require the sanction of the Legislative Assembly. In this connection attention of the Public Accounts Committee is also invited to paragraph 109 of the Report. It will be noticed that in the case of voted grants both the number and gross amount of the excesses exceed those relating to 1924-25, and in the case of non-voted appropriations, although there is improvement in the gross amount involved the number of excesses is much larger than that of the year 1924-25. The orders of the Government of India issued on the recommendations of the Committee's predecessors on this point will be found in paragraph 4 of the Government of India, Finance Department Resolution No. D.-1163-A., dated the 5th May 1927. The Public Accounts Committee may like to express the hope that the view entertained in the last sentence of that paragraph will materialise in future years.

As regards the second sub-paragraph of paragraph 9 it is understood that formal sanction to supplementary grants should be obtained even though allotments are made by the Finance Department from the Reserve.

12. *Paragraph 11.*—In view of what is stated in the last sub-paragraph the Public Accounts Committee may desire to express the view that a more drastic cut in the estimates of works where very large and important savings are usually found to occur would result in closer estimates.

The Committee will doubtless take into consideration the English precedent referred to in the last five lines.

13. *Paragraph 12.*—In this connection a reference is invited to the statement on pages 335 to 341 of the Report. It is noticed that, in making the allotments from the 'Reserve', 26 grants and one non-voted head, *viz.*, '20-Political' were operated upon, but, in the case of no less than 16 grants and the non-voted head referred to, the allotments proved to be unnecessary, in view of the savings which ultimately occurred under them. The same state of affairs is noticeable in many cases under the individual subheads to which allotments were made. It appears therefore that the allotments from the 'Reserve' were asked for and sanctioned with little or no reference to the progress of expenditure under the grant as a whole.

The Public Accounts Committee may like to express the hope that the new system of control over expenditure mentioned in paragraph 13 (ii) of the report which has been introduced from 1st October 1926 will improve the position in future.

The Public Accounts Committee may also wish to consider whether it would not suffice if in the first place a mere promise of assistance from the Reserve is given, this promise only being implemented if and when found necessary.

14. *Paragraph 14.*—These supplementary grants and re-appropriations would appear to indicate inadequate knowledge regarding the progress of expenditure.

15. *Paragraph 18.*—It has been recognised that a demand once voted by the Legislature cannot be reduced by any authority and consequently such re-appropriations whether from one voted grant to another, or from a voted grant to a non-voted head, have the effect of reducing the grant from which the transfer is made and is therefore to be regarded as unconstitutional.

16. *Paragraph 20, last sub-paragraph.*—The attention of the Public Accounts Committee is invited to this sub-paragraph. The inclusion of such items in the list would seem to be unnecessary.

17. *Paragraphs 23 to 27* have been printed across the page.

18. *Paragraph 29.*—The Public Accounts Committee may desire to ascertain what progress has been made in regard to the revision of the Sea Customs Act, and when it will be possible to lay a definite proposal for this before the Legislative Assembly. The need of an early revision of the Act has been emphasised more than once by the Audit Department and has been accepted by the Public Accounts Committee.

19. *Paragraph 30 (i).*—In forwarding to the Government of India the Executive Report for 1925-26 prepared by the Accountant General, Central Revenues, I made the following comment on this case :—

“ I have recently had to deal with a number of cases of overpayments in various provinces due to the irregular maintenance of leave accounts of non-gazetted Government servants. The duty of maintaining these accounts rests with the administrative authorities and there is little chance of audit scrutiny other than at long intervals. In view therefore of the fact that any wrong calculation is liable to result in considerable loss, which in most cases will be recurring, it seems desirable that the Government of India should take steps to impress upon the responsible officers the importance of accurate maintenance. I shall always be glad, in the initial stages, to place the expert advice of my audit officers at the disposal of the executive authority.”

20. *Paragraph 32.*—I endorse the hope expressed by the Accountant General that steps will be taken to remedy the very serious over-budgeting under this grant. A review of the Appropriation Accounts for this grant on pages 105 to 109 indicates clearly that both the original budget and the changes in provision during the year were unsatisfactory.

21. *Paragraph 35.*—The Audit report on the accounts of the Northern India Salt Revenue Department for 1925-26 recently received by the Director of Commercial Audit reveals the situation as follows :—

Under the orders recently issued by the Government of India in their Finance Department letter No. D.-1058-A., dated the 27th April 1927, the Royalties and Compensations debitable to manufacture for the year amount to Rs. 9,22,426.

(a) The gross profit or loss as per Trading Account for the three salt sources or divisions for which separate accounts have been kept up, is given below separately :—

| Unit. | | | | | Gross Loss. | Gross Profit. | | | |
|-----------------------------|----|----|----|----|-------------|---------------|----|---|--|
| | | | | | Rs. a. p. | Rs. a. p. | | | |
| Salt Range Division | .. | .. | .. | .. | 40,356 11 3 | | | | |
| Sambhar Lake | .. | .. | .. | .. | .. | 10,26,444 | 6 | 4 | |
| Pachbhadra | .. | .. | .. | .. | .. | 8,724 | 5 | 3 | |
| Total | .. | .. | .. | .. | 40,356 11 3 | 10,35,168 | 11 | 7 | |
| Total Gross Profit | .. | .. | .. | .. | .. | Rs. 9,94,812 | 0 | 4 | |

(b) Taking into account the revised figures for Royalties and Compensations sanctioned recently by the Government of India, the net results are as follows :—

| Unit. | | | | | Net Loss. | | | |
|-----------------------------|----|----|----|----|-----------|----|---|--|
| | | | | | Rs. a. p. | | | |
| Salt Range Division | .. | .. | .. | .. | 4,08,541 | 8 | 0 | |
| Sambhar Lake | .. | .. | .. | .. | 4,49,795 | 0 | 2 | |
| Pachbhadra | .. | .. | .. | .. | 71,082 | 15 | 4 | |
| Total | .. | .. | .. | .. | 9,29,419 | 7 | 6 | |

22. *Paragraph 39.*—In forwarding to the Government of India the Executive Report for 1925-26, prepared by the Accountant General, Central Revenues, I made the following remarks on this case :—

“ In this connection, I would invite attention to paragraph 26 of this office letter No. 367-Admn.-350—25, dated the 19th April 1926. It may be brought to the notice of the Government of India that there has been an increasing tendency all over India for irregularities and embezzlements in regard to stamps to grow in number. I fear that treasury officers are inclined to make light of their responsibility in this connection, and the issue of a special circular seems necessary to emphasise the fact that stamps are practically equivalent to cash, and that disregard of their safety will receive exemplary punishment in future.”

The Public Accounts Committee may like to endorse the view expressed in the last sentence of these remarks.

23. *Paragraph 46.*—My comment regarding the defect in Rule 8 of the Fundamental Rules was not referred to the Secretary of State.

24. *Paragraph 49.*—The accountant was not deputed by the Auditor General, but was lent on deputation at the request of the administrative department.

25. *Paragraph 51.*—In forwarding to the Government of India the Executive Report for 1925-26, prepared by the Accountant General, Central Revenues, I made the following comments on this case :—

“ It appears that in the bills submitted to audit the official designations of the clerks must have been incorrectly stated. If so responsibility attaches to the head of the office, who signed the bills.”

26. *Paragraph 52.*—Attention of the Public Accounts Committee is invited to this paragraph. The Committee may like to express a hope that early orders will be issued by the Government of India on these matters.

27. *Paragraph 53.*—In this connection attention of the Public Accounts Committee is invited to item (49) on page 88 of the report. The loss in the year under review is considerably greater than it was in the previous year. While it may be too early to determine whether the department will become self-supporting or not, the Committee may like to enquire whether any improvement in the position of the department can be looked for in the near future.

28. *Paragraph 54.*—The Public Accounts Committee may like to enquire whether the Government of India have since pointed out to the High Commissioner the desirability of making agreements entered into by him conform to the various ‘ House Rent Allowance Rules ’.

29. *Paragraph 56.*—It is understood that the redraft of Rule 45 of the Fundamental Rules has since been sent to the Secretary of State for sanction.

30. *Paragraph 57.*—The attention of the Public Accounts Committee is invited to this paragraph.

31. *Paragraph 58.*—The special attention of the Public Accounts Committee is invited to this paragraph and to item (56) of paragraph 111.

32. *Paragraph 59.*—I endorse the view expressed in the second sub-paragraph of this paragraph.

33. *Paragraph 64.*—If the existing rules are inapplicable to present conditions it is desirable that they should be revised as soon as possible.

34. *Paragraph 66.*—I endorse the view expressed in the last portion of this paragraph. At the same time I would point out that the expenditure finally recorded under each head is determined not merely by the total expenditure on establishment and tools and plant but also by the works expenditure. Thus a more accurate estimation of the latter is also essential.

35. *Paragraph 67.*—I have asked the Examiner of Government Press Accounts to send the Depreciation Fund Account in a complete form, if possible, and also as many audit certificates as he can on or before the 25th July 1927.

36. *Paragraph 74.*—The attention of the Public Accounts Committee is invited to the last two sub-paragraphs. It may like to consider the desirability of introducing the safeguards suggested by the Accountant General. The reason put forward by the local administration for not taking any further action does not seem to justify dispensing with the safeguards suggested by the Accountant General or with communicating to the Civil Surgeon concerned how far his action or failure to act had contributed to the misappropriation.

37. *Paragraph 79 (i) and (iii).*—The Public Accounts Committee may wish to ascertain how these matters stand.

38. *Paragraph 80.*—In forwarding to the Government of India the Executive Report for 1925-26 prepared by the Accountant General, Central Revenues, I made the following comment :—

‘ I presume that the responsibility for the double claim of the officer who took the advance will be investigated.’

The Public Accounts Committee may like to enquire whether the investigation has since been made and if so with what result.

39. *Paragraph 81.*—Presumably the Saw Mill Operator drew his passage and other expenses from Government on his arrival at North Andaman

without refunding the advance given him by the firm. If so the Public Accounts Committee may desire to ascertain whether any disciplinary action was taken against him.

40. *Paragraph 82.*—The payment of two identical bills on the same day by the Pay and Accounts officer indicates serious absence of system or gross carelessness. The Public Accounts Committee may desire to consider whether a mere warning to the assistants concerned is sufficient.

41. *Paragraph 84.*—This considerable saving due to the action of audit is brought to the notice of the Public Accounts Committee.

42. *Paragraph 85.*—Reference is invited to the comments in paragraph 12 of this letter.

43. *Paragraph 87.*—Attention of the Public Accounts Committee is invited to the remarks made in the last sub paragraph which I endorse.

44. *Paragraph 100.*—The Public Accounts Committee will no doubt realise that my instructions relate merely to the classification within the accounts. I do not form the administrative decisions on which those instructions are based.

45. *Paragraph 106 (a).*—Attention is invited to paragraph 40 of my letter to the Government of India forwarding the Audit and Appropriation Accounts of Railways in India for the year 1925-26.

(b) *Item 2.*—It has been a long and arduous task to ascertain the existing arrangements. I hope to place before Government of India very shortly the results of my enquiries.

(c) *Item 4.*—The present position is that if a new building can be erected at Rawalpindi to house certain Headquarter staff which occupies part of the Military Account office, the Military Account Office at Peshawar can be transferred to Rawalpindi and the building at Peshawar made available for the new Civil Accounts Office.

(d) *Item 7.*—In Bombay this expenditure has been estimated for within one grant. There in the Appropriation Accounts all *prorata* distributions have been neglected. Another alternative is to have a separate grant for this expenditure alone.

(e) *Item 8.*—When the Secretary of State in Council has accorded sanction to the Classification Rules, authorities in India will have large powers to frame leave rules for those Government servants whom they can appoint.

(f) *Item 13.*—I have submitted to the Government of India a summary of the principles which have been enunciated in England by the Treasury. Very large powers of framing contracts have there been granted to other Departments subject to compliance with these principles.

46. *Paragraph 110 (a).*—All the recommendations and suggestions referred to in this paragraph [except items (v i) and (viii)] have been dealt with in Government of India, Finance Department Resolution No. D. 1163-A., dated the 5th May 1927. The Public Accounts Committee will no doubt desire to study this resolution carefully.

(b) *Sub-paragraph (vi).*—The Government of India has addressed the Secretary of State as to the formulation of a working definition of a 'new service'.

47. *Paragraph 111 (a).*—As this is a very long paragraph and yet is of great importance as linking up the work of one Public Accounts Committee with that of the next, I set out below the sub paragraphs which record matters yet unsettled and not mentioned in detail in this report—sub-paragraphs (10), (11) 12), (14)—second sub-paragraphs, (25), (28), (31), (37), (44), (50), (59)—last two lines, (60), (66), (78), (80) (83), (87), (88), 89), (90), (91), (95).

(b) *Sub-paragraph (6).*—It is important that the Committee should remember that Government considers in detail only those matters which finds a place in the report of the Committee.

If in the course of the proceedings I make a promise I always implement that promise.

(c) *Sub-paragraph (76).*—On a representation of a Deputy Commissioner this case has been further considered and it is understood that Government will make a further report to the Public Accounts Committee.

(d) *Sub-paragraph (80).*—The report has since been received, and is being considered by me.

48. *Paragraph 112.*—Reference is invited to paragraph 14 of Government of India, Finance Department Resolution No. D-1163-A., dated the 5th May 1927.

49. *Paragraph 113.*—There has been a failure of audit in not demanding periodical acknowledgment of the permanent advance held by the Board. The matter was investigated by me and suitable action taken.

50. *Page 98—note A.-3 ; Page 99—note A.-11 ; Page 164—note D. ; Page 189—note G.-1 ; Page 205—note A.-5 ; Page 298—note G. ; Page 299—notes H.-1 and I ; Page 352—note B.-3 ; Page 368—note B.-3 (2) ; Page 370—note F.-2 ; Page 371—note F.-1 ; Page 377—note G. ; Page 382—note B.-6 ; Page 387—note B.-1 (7) ; Page 400—note A.-1 ; Page 415—note E.-2 ; Page 452—note A.-14 (1) ; Page 471—note B. ; and Page 477—note E.*—It is presumed that provision will be made in future under the heads under which the expenditure will be finally recorded.

51. *Page 99—note A.-11.*—Against the total provision of Rs. 1,33,080 for Bombay and Bengal the expenditure amounted to Rs. 75,260 resulting in a saving of Rs. 57,820 or 43·4% of the original grant. The Public Accounts Committee may like to enquire into the cause of over-budgeting under this head.

It is not clear why the formal re-appropriation could not be made in respect of charges aggregating Rs. 51,540 in Bengal and also for Rs. 48,222 under the head A.-9.

52. *Page 103—head A.-6 (2).*—Not only was there this saving of 1,50 under this head in Bombay but there was also a saving of 85 under the head A.-2. Apparently therefore there was considerable over-estimating under the head Establishment in Bombay, i.e., A.-2 and A.-6 (2) taken together, and the Public Accounts Committee may desire to investigate the cause of over-budgeting.

53. *Page 104—note A.-6 (7)—clause 2).*—The Public Accounts Committee may like to enquire into the cause of postponement of the demand and who was responsible for it.

54. *Page 104—note A.-8.*—There seems to be scope for making lump cuts in demands relating to expenditure in Bombay and Bengal where savings occurred in 1924-25 also.

55. *Page 104—Note 1 (b).*—This detailed statement of surrenders seems to be of little value except as giving some indication of the knowledge of progress of expenditure. One's general impression is that the amounts surrendered form so small a proportion of the eventual savings that they are of little value as evidence. It is for the Public Accounts Committee to say whether it desires to receive this information.

56. *Page 106—note A.-2 (4) ; Page 107—notes A.-3 (4) and A.-4 (6) ; Page 109—notes D.-1, D.-2 and D.-4 ; and Page 118—note K.*—The Public Accounts Committee may desire to investigate the causes of the serious over-budgeting under these heads. The savings under the head A.-2 (4) on page 106 were over 45% and under D.-4 on page 109 over 53%.

57. *Page 108—note A.-9 and A.-10.*—It is not clear why steps were not taken during the year to obtain provision to meet the charges for accounts and audit and for pensionary charges.

58. *Page 109—note C (voted).*—It is not clear why steps were not taken during the year to obtain provision to meet the charges for compensation.

59. *Page 110—observations 1 and 2 and Page 111—observation 10.*—The Committee's predecessor in paragraph 4 of its proceedings of the eighth meeting held on 30th June 1926 expressed the opinion that estimates should be prepared so far as possible on detailed schemes, specially so far as the

major works are concerned and that this should be done before provision for the same was included in the budget. I shall watch with interest the extent to which this principle is followed in practice.

60. *Page 115.*—The attention of the Public Accounts Committee is invited to note 2. It is, of course, incorrect in principle to have unverified stock valued at over Rs. 22 lakhs. Moreover it is important to ascertain the extent of wastage of salt in storage and this cannot be ascertained without verification of stock.

61. *Page 120—notes A and B.*—There is an obvious misprint in the explanation. Rs. 19,39,967 should be substituted for Rs. 39,967.

62. *Page 125—D.*—The Public Accounts Committee will no doubt notice the serious increase of stock in Calcutta.

63. *Page 128—note A.-1.*—It is not clear why the charge was not anticipated at the time of framing the estimate and provision made.

64. *Page 128—note B.-2 (1)*—The savings under this head amounted to 38% of the original allotment and the Public Accounts Committee may like to enquire whether this was due to defective budgeting.

65. *Page 128—note C.-1 and Page 345—note A (voted).*—The explanations suggest the necessity of bringing prominently to the notice of the controlling officer the fact that no adequate control over expenditure is possible unless a careful watch is kept over commitments and liabilities.

66. *Page 129—note G.-2.*—In view of the serious effect upon the accuracy of the budgeting under this head of the correct apportionment of over-head charges the Public Accounts Committee may wish to investigate the methods now adopted for determining this apportionment.

67. *Page 130—note H.-2 (10) and (11).*—There seems to have been a failure in the budgeting here.

68. *Page 136—line 11 of the explanation.*—C.-4 (4) should be substituted for C.-4 (2).

69. *Page 139—heads D.-1 (2) and D.-2 (2).*—The supplementary grants in these cases seem to have been unnecessary unless they were required for meeting expenditure on a new service and could perhaps have been avoided had the controlling officers kept an adequate watch over the progress of expenditure.

The basing of the budget provision on average instead of on actual pay, *vide* note D.-2 (2), is obviously wrong.

70. *Page 143—'Notes' 4.*—The percentage of Establishment to Works expenditure seems very high.

71. *Page 151—note G.-1.*—Control of expenditure under this head is admittedly difficult but the excess is serious and the Public Accounts Committee may wish to ascertain whether any method has been devised.

72. *Page 152—note C.*—The comment in paragraph 71 of this letter applies here also.

73. *Page 153—head A -2.*—There was a saving of Rs. 20,297 in 1924-25 also against a provision just equivalent to that provided in the year under review. The method of budgeting under this head seems to require investigation.

74. *Page 167—note B.-1.*—The surrender of Rs. 96,140 seems to have been over-estimated and this is the main cause of the final excess over the total non-voted appropriation.

I am taking steps to ensure better control over this head.

75. *Pages 179 to 184.*—The Public Accounts Committee may wish to express the view that, considering that the Pay and Accounts Office was started only a little before the beginning of the year under review, and that the work of the department is scattered all over India, the financial control has been, on the whole, very satisfactory.

76. *Page 188—notes A.-3, A.-5 and D.-4; Page 189—note H.-4. and Page 190—explanation I.*—The explanations would appear to indicate inadequate knowledge of the progress of expenditure.

77. *Page 190—notes A.-5 and D.-4.*—This seems to indicate lack of knowledge of liabilities.

78. *Page 192—note (1.*—The Public Accounts Committee may wish to ascertain whether the accounting arrangements of the High Commissioner have been improved.

79. *Pages 193 and 194.*—The saving under total voted grant amounted to 24%. The saving in 1924-25 amounted to 43%. The budgeting under this grant specially under B.-2 and B.-5 seems to require investigation.

80. *Page 196.*—The Public Accounts Committee may wish to ascertain whether this large increase of stock is advisable.

81. *Pages 203 and 204—notes D.-1 and D.-2.*—It is not clear why the excess non-voted expenditure under these heads could not be met by re-appropriations.

82. *Page 209.*—The Public Accounts Committee may desire to enquire what steps have been taken to dispose of the excess stock.

83. *Page 213—note C.-2 (5).*—The budgeting under this head appears to have been defective. The Public Accounts Committee may like to enquire why the fact that the amount recoverable from Bombay Port Trust would go to Provincial revenues could not be taken into account in framing the budget.

84. *Page 214—note D.-4.*—It appears that smaller expenditure under this head could have been anticipated at the time of framing the budget in view of the large stock which was in hand on 1st April 1925.

85. *Page 218.*—For 'Proportionate' in line 1 read "Proportion of the charges".

86. *Page 219—note A.-6 (2).*—The saving under this head amounted to about 37% of the supplementary grant which seems to have been over-estimated. This raises the question whether it should not be prescribed as a general principle that supplementary grants for additional expenditure on ordinary (as opposed to 'new') services should be postponed till the latter part of the year when a more reliable forecast of the actual requirements of the year may be possible.

87. *Pages 220 and 221—heads C.-3, G.-4 and G.-5.*—Similar savings occurred in 1924-25 also and the method of budgeting under these heads seems to require investigation.

88. *Page 220—note D.-2.*—In view of the reappropriation of Rs. 11,520 sanctioned in January and February 1926 and of the comments under B.-5, C.-1, C.-5, G.-7 and G.-8 the control under these heads does not appear to have been effective.

89. *Page 223.*—The total savings represent 22% of the net final grant. The explanations of the causes of variations between expenditure and grant generally suggest that a provision for a lump cut under this grant could have been made with advantage.

90. *Page 223—note 3.*—The need for the supplementary grant of 2,44 except to the extent of 86 under A.-6 (2) which was for a 'new service' is not apparent.

91. *Pages 237 and 242.*—Special attention is invited to the loss shown on page 237 amounting to 31 and to the losses by death and condemnations on page 242 amounting to 23.

92. *Page 245—notes I and I.-2.*—The Public Accounts Committee may like to enquire into the reasons for the savings under the head 'Contingencies' and also enquire why supplementary grants of Rs. 20,000 and Rs. 7,500 were obtained under these heads in view of the fact that the aggregate of the whole amount of these supplementary grants was subsequently diverted to purposes other than those for which they were granted.

93. *Page 251.*—The Public Accounts Committee may desire to ascertain who is responsible for control of expenditure under this head when there is no Census Commissioner.

94. *Page 256*—The control under this grant seems to have been very satisfactory.

95. *Page 266—head A.-2, Page 267—head B.-5 and Page 268—head C.*—Similar savings under these heads occurred in 1924-25 and it is a matter for consideration whether provision for a lump sum deduction on account of probable savings should not with advantage be introduced under this grant.

96. *Pages 273 and 274.*—The total allotment under heads A, B and C amounted to 67,31 and expenditure to 60,42.

The total allotment under heads D, E and F amounted to 72,10 and expenditure to 74,06 and the total allotment under head G amounted to 24,63 and expenditure to 23,89.

97. *Page 280—Grant 67—Civil Works.*—The control of expenditure under this grant has been very satisfactory and indicates a result which has not been attained by any Provincial Government.

Although there were some variations under certain individual units of appropriation which is difficult to avoid in a grant like this, the budgeting may be said to have been close.

98. *Page 296—observations 11 and 12.*—It is presumed that steps have been taken to dispose of the stocks which were in excess of requirements over and above the reserves suggested by the Divisional officers.

99. *Pages 297 to 302.*—(a) The Public Accounts Committee may desire to ascertain why it was necessary to obtain under 'A' funds during the year which represent about 84% of the funds originally allotted.

(b) In making additional provisions and allotments under individual sub-heads of this grant several mistakes occurred, *vide* explanations A.-non-voted and voted, F.-non-voted, G.-voted, H.-1-voted and notes on page 302.

100. *Page 310—note V (Non-voted).*—The explanation indicates a defect in re-appropriation.

101. *Page 310—notes W-2 (1) and (2).*—The explanations raise the question whether the Central Government should not include in its budget as a receipt from a provincial Government a sum equivalent to the corresponding expenditure budgeted for by that Government.

102. *Page 329.*—The second note on 'D.-1, D.-2, D.-3, D.-4 and D.-6' relates to 'voted'.

103. *Pages 342 to 344.*—The savings under Grant 71, which represent 50% of the final grant, are mainly due to defective budgeting under 'Refunds of Customs duty on stores'. Estimating under this head is difficult as, owing to various reasons, stores anticipated to arrive during a year do not arrive. The Public Accounts Committee may like to enquire whether with more experience a closer estimate is not possible of the cost of stores to be imported during the year upon which the expenditure on refunds is based.

104. *Page 345—note A (Non-voted).*—Apparently provision was made in the estimates for Bengal for Rs. 9,03,140 under this head for 'Refunds of Customs duty on stores'. The provision was not utilised owing to a change of procedure in the adjustment of the refund but it is not clear where the amount was adjusted. It does not seem to have been adjusted under 'Adjustments with provincial Governments' as no debit is traceable under the head C—voted on page 343. I am asking the Accountant General, Bengal, and the Examiner of Customs Accounts to clear up the matter.

105. *Page 345—note A (voted)—Bombay.*—The Public Accounts Committee may wish to ascertain why such large debits should appear through the exchange accounts and whether there is no possibility of keeping a watch on these liabilities.

106. *Page 346—head G.-1.*—The Public Accounts Committee may wish to know why no budget provision was made under this head.

107. *Page 350—Account VIII, Page 361—note B.-2—4.*—As already suggested in paragraph 69 of this letter the basing of the budget provision on average instead of on actual pay is obviously wrong.

108. *Page 350—Account XIV—Sub-head J.*—Reference is invited to note B.-7 on page 373.

109. *Page 356—note B.-4.*—This seems to be a failure to provide for an inevitable liability.

110. *Page 370—note F.-2.*—The original provision under this head seems to have been over-estimated and there seems to be considerable scope for improvement in the method of budgeting under this head.

111. *Page 404.*—The saving under voted is about 10% of the final net grant and it seems there is considerable scope for improvement in the method of budgeting under this grant, *e.g.*, a lump sum cut would perhaps have been possible under Account II, under which similar savings occurred in 1924-25 also. As a general rule the provision made for leave salary was excessive *vide* explanations B.-1 and B.-2 on page 406, A.-1 on page 407, A.-1 and D. on page 408, A.-2 on page 409 and G.-3 (2) on page 410. The same defect is noticeable in some of the other area grants, and the whole question of an additional provision in the budget for leave salary seems to need consideration—see specially A.-1 on page 432 and D.-1 on page 462.

112. *Page 410—note I.*—It is not clear why provision on account of the contribution to the Punjab Government of the cost of Factory Inspection Staff for 1922-23 and 1923-24 was not made in the estimates. Presumably, it was known that the liability existed.

113. *Page 413—Account II.*—The Public Accounts Committee may like to enquire whether the large savings in this account are not due to defective budgeting.

114. *Pages 421 and 422.*—Attention is invited to these losses of over 34% and 18%.

115. *Page 429—note 1.*—The special attention of the Public Accounts Committee is invited to this. This is another instance of very considerable overbudgeting on account of leave salaries.

116. *Page 445—‘Notes’—voted.*—The actuals seem to show that this supplementary grant was unnecessary.

117. *Page 450.*—The saving under non-voted amount to over 17% of the original appropriation and under voted to over 40%.

The main savings occur under non-voted heads H.-1, Exchange and voted heads E, H.-1, H.-6, Exchange.

The Public Accounts Committee may desire to ascertain whether the budgeting arrangements in the office of the High Commissioner cannot be improved and, if not, whether lump sum cuts should not be made in India.

The explanation under H.-1 non-voted seems to suggest—

(1) that the first rush on leave to take advantage of passage concessions has worn off, and

(2) that the estimates for sterling overseas pay have been excessive—see also H.-1 on page 454 and A.-1 (ii) on page 466.

118. *Page 459.*—The actuals seem to indicate that the supplementary appropriations under Account I were unnecessary.

119. *Page 460—note B.-4 and 5.*—The explanation seems to indicate lack of knowledge of liabilities.

120. *Page 490—Grant 86.*—As regards the savings under this grant a reference is invited to my comments in paragraph 12 of this letter.

121. *Page 491—Note on ‘Store Accounts.’*—The Public Accounts Committee may desire to emphasise the necessity for bringing the store accounts and the stock in hand on to a satisfactory position. To attain this end it seems to be necessary

(1) that those items of unserviceable stock which are still capable of being disposed of at a reduced value should be disposed of as early as possible to avoid further loss,

(2) that the stock should be revalued at regular intervals and the real position in regard thereto exhibited in the accounts,

(3) that the amount of actual loss should be ascertained and written off, and

- (4) it should be seen that serviceable stores in excess of requirements of the Department for the following 12 months which are liable to deterioration are disposed of as early as possible to avoid probable loss.

122. *Page 492—observation 3.*—The Public Accounts Committee may wish to express the hope that the detailed examination will be made as soon as possible.

123. *Page 493—note D.*—It is important to note that the provision was obtained by supplementary grant in September 1925, and yet there was a saving of 38% even after omitting the lapse of 2 lakhs which was due to delay in acquisition of certain lands. The attention of the Public Accounts Committee is invited to this.

124. *Page 498,—head A.-1.*—The Public Accounts Committee will no doubt desire to emphasise the importance of more accurate estimating on the part of provincial Governments under this head on account of the influence on the Ways and Means position of the Central Government.

125. Large savings under Establishment are still to be found in the accounts of this year

Vide page 98—head A.-2, page 102—head A.-2, page 116—head I.-2, all branches of the Secretariat (pages 154—B., 155—A.-2, 157—B., 158—B., 159—A.-2, 162—B., 163—B and 164—B), page 168—heads C.-1 and F.-1, page 199—head B., page 220—head B.-2), pages 266 and 267—heads A.-2, B.-2 and B.-3, page 305—head F.-2, page 306—head I.-2, page 307—head M.-2, page 308—head P.-2, page 352—heads B.-2, B.-6 and C.-1, page 361—heads B.-2 to 4, page 384—heads A.-2 and 3, page 398—head A., page 438—head E.-1 (1), page 456—head B.-2, page 457—head C.-2, page 471—head A.-2 and page 482—head B.-1 (2).

In the Secretariat similar savings occurred in 1924-25 also. It seems that lump sum cuts under the head Establishment could be made with advantage in all grants in which expenditure under this sub-head is considerable.

126. Lump deductions were inadequate in the following cases :—

Page 104—head A.-8, page 169—head G., page 388—head B.-4, page 418—head C., page 453—head A.-15 and page 490—head F. F.

The Public Accounts Committee may desire to urge that more drastic cut should be made as experience shows that such are feasible.

127. *Report of the Auditor of Indian Home Accounts on the Accounts of the Secretary of State. (a) Paragraph 2 and elsewhere.*—As in previous years the total saving to the Government of India as a result of audit by the Auditor of Indian Home Accounts is appreciable and indicates the extent to which the Auditor watches the financial interests of India.

The Public Accounts Committee may desire to express a hope that the settlement of the question of re-classification of pensions, referred to in paragraph 2, should be expedited.

(b) *Paragraph 4.*—With reference to paragraph 43 of the report of its predecessor on the accounts of 1924-25 the Public Accounts Committee may like to enquire what progress has since been made in the settlement of these important questions.

(c) *Paragraph 7.*—The attention of the Public Accounts Committee is invited to this paragraph.

(d) *Paragraph 20.*—The Public Accounts Committee will be pleased to see the large profit which has been made by working enemy ships.

(e) *Paragraph 23.*—It is understood that arrangements have since been concluded with the Persian Government regarding the re-payment of these loans.

(f) *Paragraph 27.*—In this connection a reference is invited to paragraph 3 (c) of this letter.

(g) *Paragraph 30 (1).*—The Public Accounts Committee will doubtless consider the suggestion made by the Auditor of Indian Home Accounts in regard to the method of allocation of the supplementary grant.

(2) The excessive provision under 'Miscellaneous' is about 27% of the total saving.

128. *Report of the Auditor of Indian Home Accounts on the accounts of the High Commissioner for India.* (a) *Paragraph 2.*—The Public Accounts Committee will be interested to see the final result of the case of the 'Clan Mackay' dealt with in paragraph 49 of the report of its predecessor on the accounts of 1924-25.

(b) *Paragraph 5.*—The special attention of the Public Accounts Committee is invited to this paragraph. The case mentioned herein relating to cement is a transaction of the Government of Burma and I have forwarded an extract of the paragraph to that Government so that it may be placed before its Public Accounts Committee.

(c) *Paragraph 6—items (i) and (ii).*—The Public Accounts Committee may like to enquire with reference to paragraph 50 of the report of its predecessor on the accounts of 1924-25 how the question of re-examining the adequacy of levying 2% departmental charges now stands.

(d) *Paragraph 7.*—I suggest that the Government of India should be prepared to explain to the Public Accounts Committee the causes for its action in this case.

(e) *Paragraph 12.*—My comment in paragraph 127 (d) of this letter applies here also.

(f) *Paragraph 17.*—Attention of the Public Accounts Committee is invited to this paragraph. I agree with the remarks made by the Auditor of Indian Home Accounts in the fourth sub-paragraph of this paragraph regarding provision for 'Leave, Salaries, etc.'.

STATEMENT A.

Consolidated statement of all Central Grants and Expenditure (Civil, Posts and Telegraphs, Railways and Military).

| Number and name of Grant or Appropriation. | | | | Final Grant or Appropriation. | Expenditure. | Expenditure compared with Grants or Appropriations. <i>More than granted.</i> |
|---|----|----|------------------------------|-------------------------------------|-----------------------------|---|
| | | | | Rs. | Rs. | Rs. |
| <i>Report prepared by the Accountant General, Central Revenues.</i> | | | | | | |
| 10. Customs | .. | .. | { Voted .. { Non-voted .. | 71,66,000 11,74,662 | 68,66,777 11,49,520 | .. .. |
| 17. Taxes on Income | .. | .. | { Voted .. { Non-voted .. | 62,56,900 2,64,219 | 55,18,582 2,43,881 | .. .. |
| 18. Salt | .. | .. | { Voted .. { Non-voted .. | 1,11,25,900 40,97,939 | 90,85,689 41,01,996 | .. 4,057 |
| 19. Opium | .. | .. | { Voted .. { Non-voted .. | 2,29,90,900 75,130 | 2,09,61,366 76,101 | .. 671 |
| 20. Stamps | .. | .. | { Voted .. { Non-voted .. | 8,53,000 29,000 | 5,98,203 29,057 | .. 57 |
| 21. Forest | .. | .. | { Voted .. { Non-voted .. | 6,83,000 3,03,211 | 6,50,228 3,05,158 | .. 1,944 |
| 22. Irrigation, Navigation, Embankment, and Drainage Works—charged to Revenue. | | | { Voted .. { Non-voted .. | 15,07,000 14,34,200 | 13,87,159 13,37,515 | .. .. |
| 25. Interest on Ordinary Debt and Reduc- tion or Avoidance of Debt. | | | { Voted .. { Non-voted .. | 1,39,24,000 12,81,00,000 | 1,34,07,980 12,69,79,568 | .. .. |
| 26. Interest on Miscellaneous Obligations. | | | { Voted .. { Non-voted .. | 23,87,000 4,23,39,860 | 23,51,067 4,05,90,077 | .. .. |
| 27. Staff House-hold and Allowances of the Governor General. | | | { Voted .. { Non-voted .. | 10,63,000 3,59,667 | 12,66,033 3,53,281 | 2,03,033 .. |
| 28. Executive Council | .. | .. | { Voted .. { Non-voted .. | 62,000 4,86,667 | 81,539 4,98,261 | 19,539 11,597 |
| 29. Legislative Bodies | .. | .. | { Voted .. { Non-voted .. | 6,39,000 1,06,492 | 5,18,485 1,06,142 | .. .. |
| 30. Foreign and Political Department | .. | .. | { Voted .. { Non-voted .. | 8,24,000 1,63,400 | 7,25,847 1,71,712 | .. 8,312 |
| 31. Home Department | .. | .. | { Voted .. { Non-voted .. | 6,04,000 7,68,300 | 5,60,841 7,37,012 | .. .. |
| 32. Legislative Department | .. | .. | { Voted .. { Non-voted .. | 5,49,000 1,63,000 | 5,19,010 1,63,404 | .. 404 |
| 33. Department of Education, Health and Lands. | | | { Voted .. { Non-voted .. | 5,27,000 1,32,000 | 5,06,091 1,25,611 | .. .. |
| 34. Finance Department | .. | .. | { Voted .. { Non-voted .. | 11,60,000 2,73,406 | 11,01,018 2,41,641 | .. .. |
| 35. Commerce Department | .. | .. | { Voted .. { Non-voted .. | 3,21,000 71,200 | 2,54,635 74,476 | .. 276 |
| 36. Army Department | .. | .. | { Voted .. { Non-voted .. | 5,64,000 1,01,000 | 5,06,326 1,01,956 | .. .. |
| 37. Department of Industries and Labour | | | { Voted .. { Non-voted .. | 5,09,000 99,411 | 4,62,970 95,029 | .. .. |
| 38. Central Board of Revenue | .. | .. | { Voted .. { Non-voted .. | 1,69,000 82,500 | 1,67,079 82,812 | .. 312 |
| 39. Payments to Provincial Governments on account of Administration of Agen- cy Subjects. | | | { Voted .. { Non-voted .. | 2,03,000 .. | 2,95,359 .. | 2,359 .. |
| 40. Audit | .. | .. | { Voted .. { Non-voted .. | 78,87,000 5,36,720 | 74,74,140 5,80,666 | .. 43,946 |
| 41. Administration of Justice | .. | .. | { Voted .. { Non-voted .. | 46,000 .. | 46,108 290 | 108 290 |
| 42. Police | .. | .. | { Voted .. { Non-voted .. | 2,91,000 2,300 | 2,95,654 2,208 | 4,654 .. |
| 43. Ports and Pilotage | .. | .. | { Voted .. { Non-voted .. | 20,78,000 11,50,070 | 19,74,793 11,42,624 | .. .. |

| Number and name of Grant or Appropriation. | | | | | Final Grant or Appropriation. | Expenditure. | Expenditure compared with Grants or Appropriations. <i>More than granted.</i> |
|---|----|----|-------------|----|-------------------------------------|--------------|---|
| | | | | | Rs. | Rs. | Rs. |
| 44. Survey of India | .. | .. | { Voted | .. | 28,98,000 | 27,22,791 | .. |
| | | | { Non-voted | .. | 7,45,870 | 7,44,190 | .. |
| 45. Meteorology | .. | .. | { Voted | .. | 6,80,000 | 6,56,278 | .. |
| | | | { Non-voted | .. | 45,000 | 44,541 | .. |
| 46. Geological Survey | .. | .. | { Voted | .. | 1,71,000 | 1,71,001 | 1 |
| | | | { Non-voted | .. | 3,09,234 | 3,04,813 | .. |
| 47. Botanical Survey | .. | .. | { Voted | .. | 6,86,000 | 5,20,708 | .. |
| | | | { Non-voted | .. | 21,550 | 21,192 | .. |
| 48. Zoological Survey | .. | .. | { Voted | .. | 1,60,000 | 1,42,039 | .. |
| | | | { Non-voted | .. | 13,600 | 13,222 | .. |
| 49. Archaeology | .. | .. | { Voted | .. | 15,16,000 | 14,56,419 | .. |
| | | | { Non-voted | .. | 79,000 | 68,861 | .. |
| 50. Mines | .. | .. | { Voted | .. | 1,57,000 | 1,41,703 | .. |
| | | | { Non-voted | .. | 77,000 | 76,936 | .. |
| 51. Other Scientific Departments | .. | .. | { Voted | .. | 3,03,000 | 3,13,840 | 10,840 |
| | | | { Non-voted | .. | .. | .. | .. |
| 52. Education | .. | .. | { Voted | .. | 2,37,000 | 2,50,712 | 13,712 |
| | | | { Non-voted | .. | .. | 10,996 | 10,996 |
| 53. Medical Services | .. | .. | { Voted | .. | 9,18,000 | 8,21,484 | .. |
| | | | { Non-voted | .. | 2,77,627 | 2,61,733 | .. |
| 54. Public Health | .. | .. | { Voted | .. | 7,08,000 | 6,88,380 | .. |
| | | | { Non-voted | .. | 1,33,400 | 1,44,130 | 10,730 |
| 55. Agriculture | .. | .. | { Voted | .. | 15,76,000 | 12,26,303 | .. |
| | | | { Non-voted | .. | 2,16,700 | 2,12,410 | .. |
| 56. Civil Veterinary Services | .. | .. | { Voted | .. | 7,09,000 | 7,74,598 | 5,598 |
| | | | { Non-voted | .. | 68,825 | 59,777 | .. |
| 57. Industries | .. | .. | { Voted | .. | 44,96,000 | 43,80,711 | .. |
| | | | { Non-voted | .. | 43,00,350 | 41,60,346 | .. |
| 58. Aviation | .. | .. | { Voted | .. | 1,30,000 | 1,16,932 | .. |
| | | | { Non-voted | .. | 3,600 | .. | .. |
| 59. Commercial Intelligence and Statistics | .. | .. | { Voted | .. | 2,37,000 | 2,00,733 | .. |
| | | | { Non-voted | .. | 39,070 | 38,927 | .. |
| 60. Census | .. | .. | { Voted | .. | 1,000 | 3,384 | 2,384 |
| | | | { Non-voted | .. | .. | 2,630 | 2,630 |
| 61. Emigration—Internal | .. | .. | { Voted | .. | 50,000 | 47,871 | .. |
| | | | { Non-voted | .. | 7,000 | 6,600 | .. |
| 62. Emigration—External | .. | .. | { Voted | .. | 70,000 | 82,680 | 3,680 |
| | | | { Non-voted | .. | 27,300 | 28,055 | 755 |
| 63. Joint Stock Companies | .. | .. | { Voted | .. | 1,29,000 | 1,22,774 | .. |
| | | | { Non-voted | .. | 1,200 | 1,200 | .. |
| 64. Miscellaneous Departments | .. | .. | { Voted | .. | 16,57,000 | 15,92,631 | .. |
| | | | { Non-voted | .. | 1,93,464 | 1,91,008 | .. |
| 65. Currency | .. | .. | { Voted | .. | 55,24,000 | 52,21,691 | .. |
| | | | { Non-voted | .. | 1,43,700 | 1,34,976 | .. |
| 66. Mint | .. | .. | { Voted | .. | 15,81,000 | 14,92,143 | .. |
| | | | { Non-voted | .. | 85,000 | 85,592 | 592 |
| 67. Civil Works | .. | .. | { Voted | .. | 1,38,68,000 | 1,38,68,013 | .. |
| | | | { Non-voted | .. | 39,28,300 | 21,83,785 | .. |
| 68. Superannuation Allowances and Pen- sions. | .. | .. | { Voted | .. | 52,44,000 | 53,76,756 | 1,32,756 |
| | | | { Non-voted | .. | 2,40,40,738 | 2,30,46,836 | .. |
| 69. Stationery and Printing | .. | .. | { Voted | .. | 33,31,000 | 32,34,345 | .. |
| | | | { Non-voted | .. | 1,00,600 | 96,801 | .. |
| 70. Miscellaneous | .. | .. | { Voted | .. | 50,04,000 | 38,76,397 | .. |
| | | | { Non-voted | .. | 30,88,626 | 30,67,182 | .. |
| 71. Adjustments with Provincial Govern- ments. | .. | .. | { Voted | .. | 16,26,000 | 8,05,392 | .. |
| | | | { Non-voted | .. | 7,62,774 | 7,62,774 | .. |
| 72. Refunds | .. | .. | { Voted | .. | 57,26,000 | 65,21,612 | 7,95,612 |
| | | | { Non-voted | .. | 2,15,82,000 | 1,99,06,202 | .. |

| Number and name of Grant or Appropriation. | | | | Final Grant or Appropriation. | Expenditure. | Expenditure compared with Grants or Appropriations. <i>More than granted.</i> |
|---|-------|-------------|----|-------------------------------------|--------------|---|
| | | | | Rs. | Rs. | Rs. |
| 73. North-West Frontier Province | .. | { Voted | .. | 1,19,91,000 | 1,16,93,422 | .. |
| | | { Non-voted | .. | 1,09,44,198 | 1,05,08,636 | .. |
| 74. Baluchistan | .. .. | { Voted | .. | 26,24,000 | 25,47,750 | .. |
| | | { Non-voted | .. | 45,18,499 | 43,54,028 | .. |
| 75. Delhi | .. .. | { Voted | .. | 33,91,000 | 33,28,691 | .. |
| | | { Non-voted | .. | 3,89,553 | 2,89,496 | .. |
| 76. Ajmer-Merwara | .. .. | { Voted | .. | 13,91,000 | 12,56,444 | .. |
| | | { Non-voted | .. | 1,55,000 | 1,35,839 | .. |
| 77. Andamans and Nicobar Islands | .. | { Voted | .. | 41,63,000 | 35,74,663 | .. |
| | | { Non-voted | .. | 1,91,030 | 1,75,952 | .. |
| 78. Rajputana | .. .. | { Voted | .. | 4,65,000 | 4,57,535 | .. |
| | | { Non-voted | .. | 10,79,403 | 10,48,100 | .. |
| 79. Central India | .. .. | { Voted | .. | 5,83,000 | 5,55,482 | .. |
| | | { Non-voted | .. | 7,66,910 | 6,69,337 | .. |
| 80. Hyderabad | .. .. | { Voted | .. | 73,000 | 65,691 | .. |
| | | { Non-voted | .. | 3,03,690 | 2,88,436 | .. |
| 81. Expenditure in England under the control of Secretary of State. | | { Voted | .. | 19,73,000 | 15,68,932 | .. |
| | | { Non-voted | .. | 12,89,000 | 12,15,302 | .. |
| 82. Expenditure in England under control of High Commissioner. | | { Voted | .. | 22,43,000 | 13,48,882 | .. |
| | | { Non-voted | .. | 53,70,000 | 44,39,697 | .. |
| <i>Ecclesiastical</i> | .. .. | Non-voted | .. | 33,61,126 | 29,51,876 | .. |
| <i>Political</i> | .. .. | Non-voted | .. | 1,87,83,401 | 1,81,02,195 | .. |
| <i>Territorial and Political Pensions</i> | .. | Non-voted | .. | 31,00,000 | 29,76,642 | .. |
| <i>Bangalore</i> | .. .. | Non-voted | .. | 17,77,376 | 17,27,451 | .. |
| Western India States Agency | .. .. | Non-voted | .. | 12,42,421 | 12,00,966 | .. |
| 83. Irrigation works—Not charged to Revenue. | | Voted | .. | 27,000 | —96,675 | .. |
| 86. Delhi Capital outlay | .. .. | { Voted | .. | 1,50,39,000 | 95,57,444 | .. |
| | | { Non-voted | .. | 3,57,800 | 3,48,740 | .. |
| 86 A. Capital outlay on Vizagapatam Harbour. | | Voted | .. | 90,47,000 | 64,76,753 | .. |
| 86-B. Capital outlay on Security Printing | | Voted | .. | 17,00,000 | 16,39,618 | .. |
| 87. Interest Free Advances | .. .. | Voted | .. | 1,82,15,000 | 1,01,17,559 | .. |
| 88. Loans and Advances bearing Interest | | Voted | .. | 15,41,99,000 | 9,89,69,974 | .. |
| <i>Report prepared by the Accountant General, Posts and Telegraphs.</i> | | | | | | |
| 23. Indian Posts and Telegraphs Department. | | { Voted | .. | 8,70,84,000 | 7,90,41,820 | .. |
| | | { Non-voted | .. | 61,30,500 | 58,00,174 | .. |
| 24. Indo-European Telegraph Department | | { Voted | .. | 29,55,000 | 16,63,789 | .. |
| | | { Non-voted | .. | 9,61,000 | 9,44,707 | .. |
| 84. Capital outlay on Posts and Telegraphs. | | { Voted | .. | 2,23,62,000 | 2,13,71,208 | .. |
| | | { Non-voted | .. | .. | 7,503 | 7,503 |
| 85. Capital outlay on Indo-European Telegraphs. | | Voted | .. | 8,04,000 | 9,75,428 | 1,71,428 |
| <i>Report prepared by the Accountant General, Railways*.</i> | | | | | | |
| 1. Revenue—Railway Board | .. .. | { Voted | .. | 9,80,000 | 9,85,000 | 5,000 |
| | | { Non-voted | .. | 5,06,000 | 4,64,000 | .. |
| 2. Revenue—Inspection | .. .. | { Voted | .. | 1,14,000 | 1,42,000 | 28,000 |
| | | { Non-voted | .. | 2,77,000 | 2,48,000 | .. |
| 3. Revenue—Audit | .. .. | { Voted | .. | 7,46,000 | 5,84,000 | .. |
| | | { Non-voted | .. | .. | 43,000 | 43,000 |
| 4. Revenue—Working Expenses—Administration. | | { Voted | .. | 12,60,00,000 | 12,38,53,000 | .. |
| | | { Non-voted | .. | 48,21,000 | 38,56,000 | .. |
| 5. Revenue—Repairs and Maintenance and Operation. | | { Voted | .. | 42,26,47,000 | 39,84,04,000 | .. |
| | | { Non-voted | .. | 90,000 | 97,000 | 7,000 |

*In this report figures have been given in thousands only. For the sake of uniformity these figures have been shown in this Statement by units by adding three noughts to figures given in the reports.

| Number and name of Grant or Appropriation. | | | Final Grant or Appropriation. | Rs. | Rs. | Expenditure compared with Grants or Appropriations. <i>More than granted.</i> |
|---|----------------------|----|-------------------------------------|--|----------------|---|
| | | | | | | |
| 6. Revenue—Companies' and Indian States' share of surplus profits and net earnings. | Voted | .. | 1,75,90,000 | 1,77,42,000 | 1,52,000 | |
| 7. Capital—New Construction .. | { Voted Non-voted | .. | 6,46,70,000 3,30,000 | 3,91,72,000 2,49,000 | .. | |
| 8. Capital—Open line works .. | { Voted Non-voted | .. | 16,10,65,000 85,000 | 14,93,27,000 90,000 | .. | 5,000 |
| 9. Revenue—Appropriation to Depreciation Fund. | Voted | .. | 10,73,25,000 | 10,66,88,000 | .. | |
| 10. Revenue—Appropriation from Depreciation Fund. | Voted | .. | 9,50,00,000 | 7,98,40,000 | .. | |
| 11. Revenue—Commercial Lines—Miscellaneous. | { Voted Non-voted | .. | 6,65,000 3,07,000 | 1,86,000 3,81,000 | .. | 74,000 |
| 12. Revenue—Appropriation to the Reserve Fund. | Voted | .. | 3,28,43,000 | 3,79,31,000 | 50,88,000 | |
| 13. Revenue—Appropriation from the Reserve Fund. | Voted | .. | .. | .. | .. | |
| 14. Revenue—Strategic Lines .. | { Voted Non-voted | .. | 1,82,00,000 14,000 | 1,13,03,000 29,000 | .. | 15,000 |
| 15. Capital—Strategic Lines .. | { Voted Non-voted | .. | 53,70,000 35,000 | 35,60,000 52,000 | .. | 17,000 |
| State Railways Revenue—Interest on Debt. | Non-voted | .. | 25,02,97,000 | 24,81,12,000 | .. | |
| Capital—Redemption of Liabilities involved in the purchase of Railways. | Non-voted | .. | 3,41,55,000 | 3,42,74,000 | 1,19,000 | |
| Capital—Discharge of Debentures | Non-voted | .. | 1,06,58,000 | 82,62,000 | .. | |
| <i>Report prepared by the Financial Adviser, Military Finance.</i> | | | | | | |
| Army .. | { India England | .. | Non-voted .. | 45,48,51,055 | 45,60,77,450 | 12,26,395 |
| Marine .. | { India England | .. | Non-voted .. | 52,29,000 | 48,60,991 | .. |
| Military Engineer Services | { India England | .. | Non-voted .. | 4,17,17,952 | 4,24,84,017 | 7,66,065 |
| Total .. | { Voted Non-voted | .. | 1,53,74,85,700 1,20,77,98,869 | 1,36,03,24,719(A) 1,19,12,89,373(B) | | |
| GRAND TOTAL .. | | .. | | 2,74,52,84,569 | 2,55,16,14,092 | |

(A) This amount is greater than that given in Account No. 12 of the Finance and Revenue Accounts of the Government of India for 1925-26 by Rs. 8,03,32,309 owing to the following causes—

(1) Posts and Telegraphs Rs. 4,95,178

(2) Railways + 7,98,87,131

(1) Represents 'Refunds' by 'Indian Posts and Telegraphs Department' (vide page 43 of the Posts and Telegraphs Report) but not shown in the Finance and Revenue Accounts (Account No. 12).

(2) Represents expenditure on Renewals and replacements (Rs. 7,98,39,633) met out of Depreciation Funds but not shown in the Appropriation Accounts as reduction of expenditure under working expenses. The balance, i.e., Rs. 2,502 is apparently due to rounding.

(B) This amount is less than that given in Account No. 12 of the Finance and Revenue Accounts of the Government of India for 1925-26 by Rs. 12,68,225 owing to the following causes :—

(1) Railways Rs. 3,907

(2) 48-Army + 12,62,132

(1) This is due to rounding.

(2) Represents the debit of Army Unaudited expenditure adjusted in the Finance and Revenue Accounts but not taken into account in the Appropriation Accounts.

STATEMENT B.

Statement showing excesses over Voted Grants which require the sanction of the Legislature.

| Item No. | Name of Grant. | Final Grant. | Actual expenditure. | Excess requiring the sanction of the Legislature. |
|----------|---|--------------|---------------------|---|
| | | | Rs. | Rs. |
| 1 | 27.—Staff House-hold and allowances of the Governor-General. | 10,63,000 | 12,66,033 | 2,03,033 |
| 2 | 28.—Executive Council | 62,000 | 81,539 | 19,539 |
| 3 | 39.—Payments to Provincial Governments on account of Administration of Agency Subjects. | 2,93,000 | 2,95,359 | 2,359 |
| 4 | 41.—Administration of Justice | 46,000 | 46,108 | 108 |
| 5 | 42.—Police | 2,91,000 | 2,95,654 | 4,654 |
| 6 | 46.—Geological Survey | 1,71,000 | 1,71,001 | 1 |
| 7 | 51.—Other Scientific Departments | 3,03,000 | 3,13,840 | 10,840 |
| 8 | 52.—Education | 2,37,000 | 2,50,712 | 13,712 |
| 9 | 56.—Civil Veterinary Services | 7,69,000 | 7,74,598 | 5,598 |
| 10 | 60.—Census | 1,000 | 3,384 | 2,384 |
| 11 | 62.—Emigration—External | 79,000 | 82,680 | 3,680 |
| 12 | 68.—Superannuation Allowances and Pensions .. | 52,44,000 | 53,76,756 | 1,32,756 |
| 13 | 72.—Refunds | 57,26,000 | 65,21,612 | 7,95,612 |
| 14 | 85.—Capital outlay on Indo-European Telegraphs | 8,04,000 | 9,75,428 | 1,71,428 |
| 15 | 1.—Revenue—Railway Board | 9,80,000 | 9,85,000 | 5,000 |
| 16 | 2.—Revenue—Inspection (Railway) | 1,14,000 | 1,42,000 | 28,000 |
| 17 | 6.—Revenue—Companies' and Indian States' share of Surplus Profits and Net Earnings (Railway). | 1,75,90,000 | 1,77,42,000 | 1,52,000 |
| 18 | 12.—Revenue—Appropriation to the Reserve Fund (Railway). | 3,28,43,000 | 3,79,31,000 | 50,88,000 |

STATEMENT C.

Statement showing excesses over Non-voted Appropriations which require the sanction of the Government of India, Finance Department.

| Item No. | Name of Appropriation. | Final Appropriation. | Actual expenditure. | Excess requiring the sanction of the Government of India. |
|----------|---|----------------------|---------------------|---|
| | | | Rs. | Rs. |
| 1 | 18.—Salt | 40,97,939 | 41,01,996 | 4,057 |
| 2 | 19.—Opium | 75,430 | 76,101 | 671 |
| 3 | 20.—Stamps | 29,000 | 29,057 | 57 |
| 4 | 21.—Forest | 3,03,214 | 3,05,158 | 1,944 |
| 5 | 28.—Executive Council | 4,86,667 | 4,98,264 | 11,597 |
| 6 | 30.—Foreign and Political Department | 1,63,400 | 1,71,712 | 8,312 |
| 7 | 32.—Legislative Department | 1,63,000 | 1,63,404 | 404 |
| 8 | 35.—Commerce Department | 74,200 | 74,476 | 276 |
| 9 | 38.—Central Board of Revenue | 82,600 | 82,812 | 312 |
| 10 | 40.—Audit | 5,36,720 | 5,80,666 | 43,946 |
| 11 | 41.—Administration of Justice | .. | 290 | 290 |
| 12 | 52.—Education | .. | 10,996 | 10,996 |
| 13 | 54.—Public Health | 1,33,400 | 1,44,130 | 10,730 |
| 14 | 60.—Census | .. | 2,630 | 2,630 |
| 15 | 62.—Emigration—External | 27,300 | 28,055 | 755 |
| 16 | 66.—Mint | 85,000 | 85,592 | 592 |
| 17 | 84.—Capital outlay on Posts and Telegraphs .. | .. | 7,503 | 7,503 |
| 18 | 3.—(Railway) Revenue—Audit | .. | 43,000 | 43,000 |
| 19 | 5.—Revenue—Repairs and Maintenance and Operation (Railway). | 90,000 | 97,000 | 7,000 |
| 20 | 8.—Capital—Open-line Works (Railway) .. | 85,000 | 90,000 | 5,000 |
| 21 | 11.—Revenue—Commercial Lines—Miscellaneous (Railway). | 3,07,000 | 3,81,000 | 74,000 |
| 22 | 14.—Revenue—Strategic Lines (Railway) .. | 14,000 | 29,000 | 15,000 |
| 23 | 15.—Capital—Strategic Lines (Railway) .. | 35,000 | 52,000 | 17,000 |
| 24 | Capital—Redemption of Liabilities involved in the purchase of Railways. | 3,41,55,000 | 3,42,74,000 | 1,19,000 |
| 25 | Army—India | 45,48,51,055 | 45,60,77,450 | 12,26,395 |
| 26 | Military Engineer Services—India | 4,17,17,952 | 4,24,84,017 | 7,66,065 |
| 27 | Military Engineer Services—England | 3,40,000 | 3,40,652 | 652 |

Enclosure II.

FROM SIR FREDERIC GAUNTLETT, K.B.E., C.I.E., I.C.S., AUDITOR GENERAL IN INDIA, TO THE SECRETARY TO THE GOVERNMENT OF INDIA, FINANCE DEPARTMENT, No. T.-398-ADMN.—71-27, DATED THE 18TH JUNE 1927.

SUBJECT:—*Appropriation Accounts of the Army, Marine and Military Engineer Services for the year 1925-26 and the Audit Report by the Director of Army Audit thereon.*

I have the honour to forward herewith two copies of the Appropriation Accounts of the Army, Marine and Military Engineer Services for the year 1925-26, prepared by the Financial Adviser, Military Finance, together with two copies of the Audit Report thereon prepared by the Director of Army Audit, for necessary action. It is presumed that these reports will be examined by an *ad hoc* Committee as usual.

Copies of the accounts of the receipts and disbursements of the Secretary of State and the High Commissioner for India on account of the Central Government in respect of Military Services, for the year 1925-26, together with copies of the appropriation accounts, and the reports thereon prepared by the Auditor, India Home Accounts, will be transmitted later.

2. As the Army Appropriation Accounts and the Audit Report thereon are separate publications, I propose to comment upon them in the following order:—

- I. *Audit Report*.—Parts I to III. These contain preliminary remarks and link up this report with previous reports.
- II. *Appropriation Accounts*—Sections I to III—and *Audit Report*—Part IV (paragraphs 22 and 23) which contains the comments of the Director of Army Audit on those sections of the accounts.
- III. *Appropriation Accounts*.—Section IV and the remainder of Part IV of the Audit Report.

Section IV contains the accounts themselves and I propose to deal simultaneously with—

- (a) each main head,
- (b) the comments of the Financial Adviser thereon, and
- (c) the comments of the Director of Army Audit thereon.

3. *Audit Report—Paragraph 3*.—It is for the Committee to decide whether it will deal with these comments on previous reports before or after the report proper. I trust the Committee will agree that this linking up with previous reports is important.

I endorse the suggestion made by the Director of Army Audit at the top of page 2.

4. *Audit Report—Paragraph 3—top of page 4*.—The Committee may desire to know whether any decision has yet been arrived at on the question of prepayment.

5. *Audit Report—Paragraph 3—remark against "Paragraph 48"*.—The Committee may desire to know what progress has been made with concentration.

6. *Audit Report—Paragraph 4*.—The Committee may desire to know what progress has been made in the reduction of the staff at Army Headquarters.

7. *Audit Report—Paragraph 7*.—The Committee may desire to know whether this may be regarded as a final settlement of this very troublesome question.

8. *Audit Report—Paragraph 14*.—This Committee has been entrusted with a very important enquiry and the Committee may desire to know whether it has yet reported and what action has been taken on the report.

9. *Audit Report—Paragraph 17*.—The Committee may desire to comment on the value of central purchase of certain classes of commodities.

10. *Appropriation Accounts—Paragraphs 2 and 13, Audit Report—Paragraph 23.*—The Committee may desire to make the enquiry suggested by the Director of Army Audit. It may also desire to express approval of the close approximation of the actuals to the estimates specially in view of the serious discrepancies in the two previous years, *vide* paragraph 3 of the Appropriation Accounts.

11. *Appropriation Accounts—Paragraph 4.*—As an illustration of the truth of the statement in the first three lines, reference is invited to the accounts on pages 13, 32 and 42.

12. *Appropriation Accounts—Paragraph 6.*—Reference is invited to the comments of the Director of Army Audit in paragraph 23 of his report.

13. *Appropriation Accounts—Paragraph 10.*—The larger outlay on stores in 1926-27 and 1927-28 is due, I presume, not to a larger consumption, but to the fact that in preceding years the Army had been living largely on surplus stores.

14. *Appropriation Accounts—Paragraph 36.*—Reference is invited to the remarks of the Director of Army Audit in paragraph 23 of his report. While it will be the duty of the Director of Army Audit to call attention to reappropriations to meet the cost of new measures, his work will obviously be facilitated if the authorities who record the reappropriations draw a similar distinction. In the same way, if the wish of the Special Committee was based on the view that such reappropriations should be as few as possible, it is obviously the duty of the Financial Adviser to consider how far that view should be met and how.

15. *Appropriation Accounts—Paragraph 45.*—The Financial Adviser offers no comments on this account. Reference is invited to the remarks of the Director of Army Audit in paragraph 24 of his report.

16. *Appropriation Accounts—Paragraphs 47, 49 and 50.*—Reference is invited to the remarks of the Director of Army Audit in paragraph 25 of his report. Those remarks indicate that the excesses occurred under Direct Charges to the extent of 21, 74 and under Supplies and Services to the extent of 26, 26.

The difficulty of giving accurate explanations of the excesses seems to be due to the drastic changes made in the form of the accounts after the estimate had been framed and the Committee may desire to emphasise the view, which it has already expressed, that it is undesirable to change the form of the accounts in any year unless it has also been found possible to alter the form of the estimates for that year.

17. *Appropriation Accounts—Paragraphs 49 and 53.*—The Committee may desire to reiterate the view that provision should be made in the estimates under the head under which the expenditure will eventually be recorded in the accounts.

18. *Appropriation Accounts—Paragraph 58.*—The comment in paragraph 17 above applies here also. The Committee may also desire to ascertain the cause of the incorrect debit in 1924-25.

19. *Audit Report—Paragraph 26.*—Attention is invited to the comments in sub-clauses (vi) to (viii).

20. *Audit Report—Paragraph 27 (ix).*—The Committee may desire to ascertain whether victualling agents have been abolished.

21. *Audit Report—Paragraph 29.*—This is a very serious case. The main lesson to be learnt seems to be the danger of loss to Government if orders authorising payments are not scrutinised with the utmost care and if there is any delay in carrying through recognised account processes.

22. *Audit Report—Paragraph 30.*—In view of the serious loss entailed—nearly Rs. 5½ lakhs—the Committee may desire to know what safeguards have been devised.

HEAD II.

23. *Appropriation Accounts—Paragraph 62.*—Reference is invited to paragraph 34 of the Audit Report. The original estimates under the sub-heads 'Working expenses of Manufacturing Establishments', 'Inspection of Stores' and 'Exchange' were very seriously wrong.

24. *Appropriation Accounts—Paragraph 67.*—Reference is invited to paragraphs 38 and 50 of the Audit Report. The Committee may desire to investigate the large losses of stores in the Central Mechanical Transport Stores Depôts.

25. *Appropriation Accounts—Paragraph 68.*—The Committee may desire to ascertain whether the explanation given relating to item 6, which is much the biggest, does not indicate defective budgeting, and why the modified appropriation at the end of the year could not be closer to the actuals. Did not monthly actuals, specially under item 6, indicate the need for a larger diminution of the original appropriations? As regards item 6, I would point out that smaller purchase of stores affects the total grant while larger value of outturn transferred to Head IV does not. The Committee may like to suggest that these two items should have been recorded separately and the values exhibited separately.

Attention is also invited to paragraphs 48 and 49 of the Audit Report.

26. *Appropriation Accounts—Paragraph 69 (2).*—If the explanation means that the budget provision was made under this head, whereas the actual expenditure was recorded under other sub-heads, my comment on paragraphs 49 and 53 (*vide* paragraph 17 of this letter) applies here also.

27. *Appropriation Accounts—Paragraph 75 (1).*—My comment on paragraphs 49 and 53 (*vide* paragraph 17 of this letter) applies here also.

28. *Audit Report—Paragraph 37.*—The main lesson to be learnt from this case is the need for prompt and thorough local inspections.

29. *Audit Report—Paragraph 39.*—Special attention is invited to this paragraph.

30. *Audit Report—Paragraph 40.*—Attention is invited to the comments in clauses (iv) and (v).

31. *Audit Report—Paragraph 41.*—The Committee may desire to ascertain what comments have been made on the conduct of the Controller of Military Accounts.

32. *Audit Report—Paragraph 43.*—The special attention of the Committee is invited to this very serious case and also to the last four lines of paragraph 44.

33. *Audit Report—Paragraph 46.*—The Committee may desire to ascertain who purchased the plant and on what authority?

34. *Audit Report—Paragraph 47.*—Attention is invited to this instance of very practical results of audit action.

35. *Audit Report—Paragraph 54.*—The Committee may desire to ascertain the position as regards this very important matter.

HEAD III.

36. *Appropriation Accounts—Paragraph 83.*—Attention is invited to the comments in paragraph 64 of the Audit Report.

37. *Audit Report—Paragraph 66.*—The Committee may desire to know what comments have been made on the conduct of the Controller of Military Accounts.

HEAD IV.

38. *Appropriation Accounts—Paragraph 89.*—Attention is invited to the comments in paragraph 68 of the Audit Report.

39. *Appropriation Accounts—Paragraph 90.*—Attention is invited to the comments in paragraph 71 of the Audit Report.

40. *Appropriation Accounts—Sub-head 19—Departmental transfers (page 35).*—The Financial Adviser has offered no comments on this sub-head.

Attention is invited to the comments in paragraph 70 of the Audit Report. I would elaborate these comments by explaining that goods in transit at the beginning of each financial year have to be credited to this head when brought to account in the receiving depôt or unit. Thus this credit figure of 60 lakhs represents the excess of goods in transit at the beginning of the year over the goods in transit at the end of the year. Even so, it seems a large figure and the Committee may desire to suggest that more attention should be paid to the accuracy of the classifications under these heads.

41. *Appropriation Accounts—Paragraph 91.*—My comments on paragraphs 49 and 53 (*vide* paragraph 17 of this letter) apply here also. The Committee may desire to ascertain whether the Controllers, who followed incorrect methods of accounting, had any reasonable excuse for such an error and whether they have now received adequate instructions.

HEAD V.

42. *Appropriation Accounts—Paragraph 108.*—Attention is invited to the comments in paragraph 75 of the Audit Report.

HEAD VI.

43. *Appropriation Accounts—Paragraph 113.*—Attention is invited to paragraph 77 of the Audit Report.

44. *Appropriation Accounts—Paragraph 115.*—The special attention of the Committee is invited to the comments in paragraph 78 of the Audit Report. The last sentence is pertinent because even the modified grant was over Rs. 1 crore out.

As regards the last sentence in sub-paragraph 1 of paragraph 115, the Committee may wish to consider whether, when the form of the accounts is simplified, more effort should not be made to prepare a budget estimate which shall conform to the final account.

45. *Appropriation Accounts—Paragraph 118.*—Attention is invited to paragraph 79 of the Audit Report.

48. ARMY.

Part B.—Auxiliary and Territorial Forces.

46. *Appropriation Accounts—Paragraph 133.*—The Committee may desire to be assured that the 6 lorries purchased on 30th March 1926, were really required, and that the purchase was not made merely to utilise savings.

47. *Audit Report—Paragraph 82.*—This is another instance of the need for prompt local audit.

48. ARMY.

Part C.—Royal Air Force.

48. *Appropriation Accounts—Paragraphs 138 and 142.*—The explanations suggest the importance of prompt action in recasting stock book rates so as to conform to the new official rate of exchange, *viz.*, Re. 1=1s. 6d.

50. MILITARY ENGINEER SERVICE.

49. *Appropriation Accounts—Paragraph 170.*—Attention is invited to paragraph 80 of the Audit Report.

50. *Audit Report—Paragraph 94.*—This paragraph contains an excellent example of the dangers arising when work is rushed through at the end of the year in order to utilise funds.

51. *Audit Report—Paragraph 96 (v).*—This clause raises the very important issue as to the powers of the administration to admit claims which are not clearly covered by contract without reference to the financial authorities.

52. *Audit Report—Paragraph 99.*—Attention is invited to the very important criticisms and suggestions contained in this paragraph.

Enclosure III.

FROM SIR FREDERIC GACHTLETT, K.B.E., C.I.E., I.C.S., AUDITOR GENERAL
IN INDIA, TO THE SECRETARY TO THE GOVERNMENT OF INDIA, FINANCE
DEPARTMENT, No. T. 106-ADMN./68-27, DATED THE 4TH MAY 1927.

SUBJECT :—*Audit and Appropriation Accounts of the Posts and Telegraphs
Department for the year 1925-26.*

With reference to Rule 15(a) of the Auditor General's Rules framed under Section 96-D(1) of the Government of India Act, I have the honour to transmit herewith two copies of the Audit and Appropriation Accounts of the Posts and Telegraphs Department for the year 1925-26, prepared by the Accountant General, Posts and Telegraphs, for submission to the Public Accounts Committee and necessary action by the Government of India.

2. I offer the following comments on the Audit and Appropriation Accounts.

3. At the outset of my remarks I would call attention to the action taken in cases previously reported which is set out in Appendix II. Special attention is invited to the remarks of the Accountant General in paragraphs 4(2) and 5 (2) that the action taken seems to be inadequate.

I suggest for the consideration of the Public Accounts Committee that its first action when taking up a particular report should be to consider any outstandings from the preceding report from the same reporting officer.

4. Paragraph 2—(a). If the Public Accounts Committee find it convenient to have two separate reports dealing with the Indian Posts and Telegraphs Department and the Indo-European Telegraph Department the Committee may deem it desirable to suggest that there should likewise be separate grants.

(b) I presume the Public Accounts Committee will wish to have presented to it by the Accountant General in this report a brief statement of the financial results of the year and of the general financial position of the Departments.

5. Paragraphs 7 and 8—(a). The Public Accounts Committee may wish to investigate the suggestion in paragraph 7 that an improvement may be anticipated under Telephones and that in paragraph 8 that there are adjustments, not hitherto made, which in future years may reduce Postal profits and enhance those under Telegraphs and Telephones.

(b) Special attention is invited to the remark in paragraph 8 that there have been unusual factors operating in the year under report which have enhanced the profits almost entirely in the Postal Department by between 15 and 16 lakhs.

6. Paragraph 9 (ii)—(a) The fall in Telegraph receipts is disquieting and the Public Accounts Committee may desire to ascertain the causes and whether they are likely to continue.

(b) Now that the rate of exchange is fixed by statute there is an urgent need for the revision of the formula on which the collection rate is based and the Public Accounts Committee may wish to ascertain whether it has been changed.

7. Paragraph 10.—The Public Accounts Committee will be interested to see that the results of two changes due to commercialisation more than account for the actual rise in Working Expenses so that but for these there would have been a diminution.

8. Paragraph 11.—(a) Much the most important point brought to notice in this paragraph is the overestimate of Interest (*vide* the last sub-paragraph) and the Public Accounts Committee will no doubt wish to ascertain why the

Government of India took a figure so much larger ($12\frac{1}{2}$ lakhs and nearly 23 per cent.) than the figure suggested by the Accountant General which itself was an overestimate.

(b) Minor points which may repay investigation are—

- (i) Whether the opening of the new head referred to in sub-paragraph 3 was not decided upon in time for budget provision to be made thereunder.
- (ii) Why there was such delay in the presentation of bills for trunk calls (*vide* sub-paragraph 4) as to render certain claims irrecoverable.
- (iii) The need for more rigorous deductions in the estimates for probable savings (*vide* sub-paragraph 5).

9. *Paragraphs 12 to 15.*—It is suggested that the Public Accounts Committee postpone consideration of the points raised in these paragraphs until it has dealt with the appropriation accounts as presented by the Accountant General in this volume.

I merely remark that there must be such similarity in form between—

- (1) the demand for grants as presented to the Legislative Assembly,
- (2) the accounts as maintained by the Accountant General,
- (3) the appropriation accounts as presented to the Public Accounts Committee, and
- (4) the Finance and Revenue Accounts as presented to Parliament so as to render it possible
 - (a) to prepare (3) and (4) from (2),
 - (b) to reconcile (3) and (4) with (2) and with each other and
 - (c) to compare (3) with (1).

I suggest also that the fundamental basis for the form of all four must be the scheme of organisation and control in the Posts and Telegraphs Department. The Accountant General says this is the basis of his accounts—*vide* paragraph 14.

If these views be endorsed by the Public Accounts Committee and if the Committee will see how far the present report fails to give information which the Committee requires, such action will enable me to settle with the Accountant General a more suitable form for the next report.

10. *Paragraph 16 (1) and (2).*—The Public Accounts Committee may wish to state that with experience the actuals under “unabsorbed oncost” should become very small.

11. *Paragraph 18.*—Here too the budgeting with experience should become more accurate. In view of the comments offered in this paragraph I do not comment on differences between appropriations and expenditure as disclosed in the detailed accounts unless they are such as not to be covered by these comments.

12. *Paragraph 22.*—The Public Accounts Committee will no doubt view with concern the statement of the Accountant General in the last three lines that the importance of control of expenditure against appropriation is not yet realised adequately by even the more senior officers of the Department.

13. *Paragraph 23.*—The Public Accounts Committee will no doubt endorse the submission of the Accountant General at the end of this paragraph.

14. *Paragraph 24.*—It is suggested that the criterion for inclusion in this report should be the inherent importance of the embezzlement or the financial irregularity and not whether any loss falls on postal revenues.

15. *Paragraphs 26 to 35.*—In these paragraphs 12 cases of embezzlement are recorded. It is disquieting to note that six of these cases were carried out by responsible officials such as postmasters, sub-postmasters and deputy postmasters while in four cases their negligence contributed indirectly.

The disciplinary action taken seems adequate.

16. *Paragraph 26.*—The case of misappropriation described in this paragraph is serious by reason of the elaborate methods adopted. It is on a higher plane than any I have hitherto heard of in postal crime.

17. *Paragraphs 27, 29 and 35.*—These cases emphasise the importance of the safe custody of receipt books, of money order stamps and of keys.

18. *Paragraph 30.*—If postmasters are punished for negligence which facilitates embezzlement, should they not also receive rewards for any display of special intelligence which leads to the detection of embezzlement?

19. *Paragraph 32.*—The Public Accounts Committee will no doubt desire to endorse the recommendation of the Accountant General in the last sub-paragraph.

20. *Paragraph 34.*—In view of the large sums involved in this embezzlement the Public Accounts Committee may wish to ascertain whether the defects in procedure disclosed by this case and by the consequential inspection by the audit authorities have been rectified.

21. *Paragraph 41.*—While admitting the validity of many of the arguments of the Accountant General to be found in paragraphs 12 to 15, I am of opinion that the tabular statement of expenditure set out in paragraph 41 is of considerable value both to Government and to the Public Accounts Committee because it calls attention very clearly to large differences between estimates and actuals under broad classes of expenditure which seem to indicate defective budgeting. Note (5) on page 81 is a striking example of over-budgeting, the saving being just one-third of the demand. An even more striking example will be found in note (6) on page 84 where the saving is nearly 57 per cent. Attention is also invited to notes II and III on page 90 as indicating the far-reaching effects of over-estimating expenditure on construction. The Public Accounts Committee may wish to call attention to, and to endorse, the conclusion drawn by the Accountant General in paragraph 41 to defects in budgeting. In this connection I also invite attention to my comment in paragraphs 23, 31 and 37 below.

22. *Paragraph 44.*—An explanation of the exact nature of the expenditure referred to in the last sentence will be found in notes VII and VIII on page 97. It appears that the expenditure has been misclassified in England and I agree that no extra grant is necessary.

23. *Paragraph 45.*—The evidence again in the year under review is strongly in support of the proposal to make large lump sum cuts from any budget estimate of funds for the construction of works.

24. *Page 52, Note VII (1) and page 68, Note VIII (1) and (2).*—The Public Accounts Committee may wish to suggest that further efforts should be made to impress upon accounting authorities in England the importance of accurate classification.

25. *Page 55*.—A total saving of 57 on a total appropriation of 30,95 is worthy of comment as indicating accurate budgeting.

26. *Pages 58 and 59*.—Taking this Sub-head as a whole the savings are due mainly—

- (1) under non-voted—to excessive budgeting for requirements in England and
- (2) under voted—to the mistake in budgeting pointed out in note II(5) on page 61.

The Public Accounts Committee may wish to ascertain whether due attention has been paid to these matters in the preparation of subsequent estimates.

27. *Page 66—notes II(1) and (4)*.—Errors in the scrutiny of progress of expenditure against appropriation are pointed out in the second sub-paragraph of note (1) and in note (4).

28. *Page 67—notes III(a) and (b)*.—The Public Accounts Committee may wish to ascertain why there was this delay in bringing to account stores received from England mentioned in (a) and as to the progress into the investigation to disclose surplus stores referred to in (b).

29. *Page 71—note II*.—I am attempting to devise a general procedure for the scrutiny of claims raised by the Controller of Stationery and Printing against other Departments. The enquiry may be prolonged as it raises wide issues as to the form of the accounts to be maintained by him.

30. *Page 93 and elsewhere*.—I have told the Accountant General that no grant can ever be formally reduced by surrender. That is an executive act which does not affect the act of the Assembly in making the original grant.

31. *Page 96, paragraph 64*.—The voted grant was 2,12,36 and expenditure 2,13,71. The latter includes 1,60,82—1,24,09=36,73 transferred from Revenue and not provided for in the budget. Thus the real expenditure against grant was 1,76,98 which showed a saving of 35,38, or 16.6 per cent. This is another proof of the need for drastic revision of estimates for funds required for construction.

32. *Page 101, paragraph 65 (i)*.—Attention is invited to my comment on note III (b) on page 67, *vide* paragraph 28 of this letter.

33. *Page 101, paragraph 65 (ii)*.—The Public Accounts Committee will no doubt, be glad to see the larger proportion of stores purchased in India in 1925-26 than in 1924-25.

34. *Page 106, paragraph 67*.—The Public Accounts Committee may wish to ascertain why capital expenditure in the Indo-European Telegraph Department has been charged to Revenue while similar expenditure in the Indian Telegraph Department has not been charged to Revenue.

35. *Pages 106 to 108, paragraph 69*.—I invite the special attention of the Public Accounts Committee, when it is considering the Profit and Loss Statement on page 107, to the comments of the Accountant General at the bottom of page 106 and at the top of page 108.

36. *Page 113, paragraph 75*.—The excess to which attention is drawn in this paragraph requires validation by a grant by the Legislative Assembly.

37. *Page 118, paragraph 77*.—The explanations in this paragraph afford further evidence of over-estimating for pay of establishments and for repairs. In this connection attention is also invited to page 131 (note 2 under Gulf Section and note (1) under Persian Section) and to note 1 on page 132.

Enclosure IV.

LETTER FROM SIR FREDERIC GAUNTLETT, K.B.E., C.I.E., I.C.S., AUDITOR
GENERAL IN INDIA, TO THE SECRETARY TO THE GOVERNMENT OF INDIA,
FINANCE DEPARTMENT, No. 828-ADMN.-70-27, DATED THE 13TH JUNE
1927.

SUBJECT :—*Audit and Appropriation Accounts of Railways in India for the
year 1925-26.*

With reference to Rule 15 (a) of Auditor General's rules framed under section 96-D(1) of the Government of India Act, I have the honour to transmit herewith two copies of the Audit and Appropriation Accounts of Railways in India for the year 1925-26, prepared by the Accountant-General, Railways, for submission to the Public Accounts Committee and for necessary action by the Government of India.

2. I offer the following comments on the Audit and Appropriation Accounts.

3. I venture to express at the outset my general conclusions on this report.

- I. The main defects brought to light are—
 - (a) There were often serious errors and omissions in the preparation of the original budget estimates.
 - (b) In particular provision was made for many classes of expenditure under heads other than those under which such expenditure would eventually be recorded in the accounts.
 - (c) The deductions for probable savings under those grants which provided funds for works in progress were inadequate.
 - (d) Provision was often made for works which were sanctioned so late that expenditure could not be incurred thereon during the year.
 - (e) Reappropriation during the course of the year was inadequate.

II. The experiment in the separation of audit and accounts on the East Indian Railway though only working for four months produced valuable results.

4. Pages 2 and 3—paragraphs 4 to 12 and pages 74 and 75.—It appears from the summary on pages 74 and 75 that in spite of the precautions mentioned in paragraphs 7 to 9 there was still a saving of 8% on the voted grants combined. There is obviously room for considerable improvement in the preparation of railway budget estimates and the Public Accounts Committee will no doubt await with interest the result of the investigations referred to in paragraph 11.

A scrutiny of the reasons for savings shows that compliance with the precautions mentioned in paragraphs 7 to 9 will not perhaps operate to stop savings completely. There are inevitable delays in works due to causes arising in the course of the year, savings due to which can only be obviated by lump cuts.

5. Page 3—paragraph 12.—The Public Accounts Committee will have to report to the Legislative Assembly the excesses mentioned in this paragraph.

6. Page 3—paragraph 15.—It has since been recognised by the Government of India that once a demand has been voted by a Legislature there is no provision either in the Government of India Act or in rules made thereunder which permits the grant being reduced on the motion either of the Government or of a non-official Member. As the reduction of a grant voted by the Legislature is unconstitutional, it is not permissible to sanction a formal reappropriation from a voted grant to a non-voted service. The Government is however entitled to issue executive orders to the authority controlling any specified grant to restrict the expenditure within a specified figure. On the other hand it is also entitled to sanction supplementary funds for any non-voted service against earmarked savings under specified voted grants.

When therefore a definite lapse is anticipated in the provision made under a voted grant the proper course is to take the surrendered amount into a reserve within the grant at the disposal of the Government and to obtain the requisite sanction for any additional allotment required to meet excess expenditure elsewhere, one argument in support of this request for additional allotment being that money is available in the reserve.

7. *Page 4—paragraph 19.*—The Public Accounts Committee may wish to express the view that it is most desirable to take steps as early as possible to remove expenditure from objection.

8. *Page 5—paragraph 22.*—If the words “and indicate mainly” be substituted for “which only indicate” in line 10, I endorse the views expressed by the Accountant-General in lines 7 to the end.

9. *Pages 5 to 7—paragraphs 23 to 25.*—These paragraphs refer to one of the most important experiments ever undertaken in India, and I am glad to report that so far the results seem eminently satisfactory. The Public Accounts Committee, however, may prefer to wait another year before expressing a final opinion as the function of the Committee is to comment on completed facts.

10. *Page 7—paragraphs 26 to 29.*—The change referred to in these paragraphs hardly falls within the period covered by this report.

11. *Page 8—paragraph 31.*—The Public Accounts Committee will no doubt desire to know the results of the further examination by the Railway Board of the question of payment of railway earnings into local treasuries.

12. *Page 10—paragraph 40.*—To build up a Reserve Fund of 9,79,09 within the first two years of the working of the convention is a noteworthy result.

13. *Page 11—paragraph 41.*—The Burma Railway is the only railway which shows better results in 1925-26 than in 1924-25.

14. *Page 13—paragraph 46.*—I doubt whether the Accountant-General is correct in referring to “unsettled labour conditions in the mills in Bombay” as the only cause of the “slump..... particularly in the cotton industry”. I only mention the point as an indication of the extreme difficulty of summarising causes for a drop in railway earnings.

15. *Page 15.*—It is interesting to notice that while there was an increase of passenger earnings on seven lines out of nine, and of goods earnings on five out of nine, there was a considerable drop in the earnings as a whole. This indicates the predominant position of the East Indian Railway, the North Western Railway and the Great Indian Peninsula Railway which showed drops throughout except in respect of passenger traffic on the North Western Railway.

16. *Page 16—paragraph 50.*—There is a discrepancy between this paragraph and the statement on page 15 which shows a drop in the passenger traffic on the Great Indian Peninsula Railway also.

17. *Page 22—paragraph 63.*—I am afraid most of these were too trivial to be worthy of record.

18. *Page 28—paragraph 77.*—It would have been more satisfactory if the expenditure had also been recorded. Extracting these details from the accounts the complete statement is—

| | | | | Grant. | | Actuals. |
|-----------------------------|----|----|----|-------------------|-----------|----------|
| | | | | By Railway Board. | By Agent. | |
| Agency | .. | .. | .. | 1,26 | 4,03 | 3,58 |
| Stores | .. | .. | .. | 13 | .. | .. |
| Engineering Department | .. | .. | .. | 5,74 | 4,07 | 4,08 |
| Loco. Department | .. | .. | .. | 7,70 | 3,73 | 3,76 |
| Carriage & Wagon Department | .. | .. | .. | 2,03 | 1,74 | 1,67 |
| Traffic Department | .. | .. | .. | 3,43 | 1,27 | 1,00 |
| Other expenses | .. | .. | .. | 4,97 | 2,82 | 4,33 |

It is obvious that the budget provision was excessive.

It is not clear why the Railway Board appropriated 1,26 only under Agency when the expenditure to be met was 3,58 or what authority the Agent had for departing so drastically from the appropriations made by the Railway Board. The whole question of the preliminary preparation of the Budget estimate of the non-voted grant by the Agent, its scrutiny by the Railway Board, and the subsequent action by the Agency well deserves investigation.

19. *Page 29—paragraph 81.*—The Public Accounts Committee may wish to ascertain whether any expenditure on automatic couplers had been incurred before the revised estimates of the cost of alteration of underframes had been received, also who was responsible for the preparation of the original estimates.

20. *Page 30—paragraph 84.*—The Public Accounts Committee will no doubt view with satisfaction the continued reduction in the amount paid as compensation.

21. *Page 32—paragraph 91.*—The Public Accounts Committee will no doubt agree that the undercharge in the case of private work was unjustifiable. In either case Government has suffered as the profits payable to Government have been reduced.

22. *Page 34—paragraph 95.*—This case is important as it affords legal support to the view, that audit has had frequently to express, that correct maintenance of initial records is of primary importance.

23. *Page 35—paragraph 97.*—The Public Accounts Committee may wish to ascertain whether measures have been devised to protect Railways from loss in such cases.

24. *Page 36—paragraph 98.*—It is not clear why recovery was not made from the shipping company who must have benefited from the coal left in the ship.

25. *Page 39—paragraphs 104 and 105.*—The Public Accounts Committee will no doubt note with some surprise that although Railway Administrations were permitted to work up to their own estimates which amounted to 8,40,79 and also to start work on 11 new constructions not provided for in those estimates, the total expenditure amounted to 3,91,72 only. The Committee may wish to ascertain whether there is more likelihood of administrations being able to work up to their estimates in the near future.

26. *Page 40—paragraph 108.*—This is a good instance of the value of local inspections. Only thus can certificates, which have to be relied upon so largely in central audit, be checked.

27. *Page 40—paragraph 110.*—The Public Accounts Committee may wish to ascertain what has happened to these machines.

28. *Page 43—paragraph 117.*—The saving on the amounts, up to which railway administrations were permitted to spend, was nearly 36 per cent.

29. *Page 43—paragraph 119.*—I doubt whether this is a sufficiently comprehensive exposition of the work of the workshops to place before the Committee but the Committee may prefer to refrain from expressing any opinion until the recommendation of the expert accountants referred to in paragraph 121 have been considered.

30. *Page 44—paragraph 120.*—The Public Accounts Committee will no doubt note with satisfaction the great improvements effected on the Great Indian Peninsula Railway.

31. *Page 45—paragraph 123.*—The Public Accounts Committee will no doubt wish to ascertain from the Railway Board whether it has yet been found possible to accept the views of the Public Accounts Committee on this very important point as expressed in the report on the Audit Report for 1924-25.

32. *Page 46—paragraph 126.*—The special attention of the Public Accounts Committee is drawn to this case which is perhaps the most serious individual case brought to notice in this report.

33. *Page 48—paragraph 128.*—It is hoped that the Public Accounts Committee will endorse the view expressed in the last four lines. Mis-statement of facts in public accounts is a grave offence and deserve serious notice. It is unfortunate that the Chief Engineer himself acquiesced in the irregular procedure. The Public Accounts Committee may also like to consider whether such a large payment to the contractor for detention of wagons should be allowed when such claims have not been entertained in the past, as it is likely to create an undesirable precedent.

34. *Pages 56 to 58—paragraphs 143 and 144.*—In view of the evidence in sub-paragraphs (a) to (c) of paragraph 143 of the extent of the practice of travelling without tickets the Public Accounts Committee will no doubt desire to ascertain the measure of success of the experiment referred to in paragraph 144.

35. *Page 62—paragraph 149.*—This paragraph records a type of fraud which I do not recollect having met with before.

36. *Page 63—paragraph 150.*—The Public Accounts Committee may desire to ascertain whether any further disciplinary action has been taken in this case.

37. *Page 63—paragraph 151.*—Reference is invited to my comment which is quoted at the end of this paragraph.

38. *Pages 64 and 65—paragraphs 152 and 153.*—These cases are important by reasons of the large sums involved and the Public Accounts Committee may desire to investigate them.

39. *Page 67—paragraph 155.*—The Public Accounts Committee may like to enquire whether the system under which it was possible for an under-charge of rent to remain undetected from 1902 has since been changed.

40. *Page 67—paragraph 156.*—I desire to emphasise the importance of linking up the work of one Public Accounts Committee with that of its predecessors. If the personnel remained substantially the same, there would be obvious advantages in a Public Accounts Committee undertaking this duty before proceeding to consider the report of the year under consideration. But if the personnel is almost entirely changed, there may be advantages in undertaking this duty after it has considered that report.

The cases still outstanding are—

Audit Report—paragraph 19.

Appropriation Report—paragraph 79.

Reference is invited to the following cases in view of their importance :—

Audit Report—paragraphs 65, 66, 82.

Appropriation Report—paragraph 68.

41. *Page 71—paragraph 157.*—The matters still outstanding from the Public Accounts Committee's report for 1923-24 are those dealt with in clauses (x) to (xvii) of this paragraph.

It is unfortunate that the Government of India has not dealt with the report for 1924-25 in time for its action to be mentioned in this report. The Public Accounts Committee may desire to express the wish that in future the Government of India will take action on its reports before the time comes for the publication of the next series of Appropriation Accounts and of the reports thereon.

42. *Page 73—paragraph 158.*—The Public Accounts Committee may wish to ascertain if any of these cases have yet been settled and, if so, how.

43. *Pages 76 to 82.*—The savings are particularly heavy under the following grants :—

| | | |
|--|----|--|
| Bengal Nagpur Railway | .. | 7. Capital—New Construction. 8. Capital—Open line works. 10. Revenue—Appropriation from Depreciation Fund. |
| Bombay, Baroda and Central India Railways. | | 8. Capital—Open line works. 10. Revenue—Appropriation from Depreciation Fund. |
| Burma Railway | .. | 7. Capital—New Construction. |
| Eastern Bengal Railway | .. | 10. Revenue—Appropriation from Depreciation Fund. |
| East Indian Railway | .. | 8. Capital—Open line works. 10. Revenue—Appropriation from Depreciation Fund. |
| Great Indian Peninsula Railway | | 8. Capital—Open line works. 10. Revenue—Appropriation from Depreciation Fund. |
| Madras and Southern Mahratta Railway. | | 8. Capital—Open line works. 10. Revenue—Appropriation from Depreciation Fund. |
| North Western Railway | .. | 7. Capital—New Construction. 10. Revenue—Appropriation from Depreciation Fund. (Strategic.) 14. Strategic—Revenue. |
| South Indian Railway | .. | 7. Capital—New Construction. 8. Capital—Open line works. 10. Revenue—Appropriation from Depreciation Fund. |
| Other Railways | .. | 7. Capital—New Construction. 8. Capital—Open line works. |

The noticeable excesses are—

| | | |
|---------------------------------------|----|--|
| Burma Railways | .. | 8. Capital—Open line works. |
| Eastern Bengal Railway | .. | 5. Revenue—Repairs, etc. 8. Capital—Open line works. |
| Madras and Southern Mahratta Railway. | | 7. Capital—New Construction. |
| North Western Railway | .. | 8. Capital—Open line works. 10. Revenue—Appropriation, etc. (Commercial). |
| Other Railways | .. | 12. Revenue—Appropriation to Reserve Fund. |

44. *Pages 83, et seq.*—If the Accountant-General has mentioned in his notes all the cases in which excesses under sub-heads have been covered by re-appropriation the Public Accounts Committee will doubtless agree that too little attention has been paid to this important feature of financial control.

45. *Page 89.*—The budgeting on the Bombay, Baroda and Central India Railway seems to have been poor.

46. *Pages 90 and 95—notes under “North Western Railway” (Voted).*—The Public Accounts Committee may desire to ascertain why on this railway alone these delayed adjustments occurred.

47. *Page 98—Eastern Bengal Railway.*—Attention is invited to the comment of the Accountant-General.

48. *Page 98 and elsewhere.*—The Railway Board when scrutinising the budgets might have checked more carefully the manner in which provision was made for payment of Lee Concessions. The Madras and Southern Mahratta Railway made no provision whatever.

49. *Pages 118 and 119.*—The savings on the appropriation for rolling stock amounted to over 17·5 per cent.

50. *Pages 133 and 134.*—The explanations under Burma Railways and Assam Bengal Railway raise the question whether budget provision should be made unless it is quite certain that sanction will be accorded in time to permit work to be undertaken during the year. The overestimating under this grant is serious and general—much the most serious being for the 'Raipur-Parbatipur' extension on which 14,67 only was spent as against 1,34,00 appropriated. Under Grant No. 7 the actual savings were 4,49,07 as against a deduction for probable savings in the budget of 1,94,09.

51. *Page 141.*—The actual saving under Grant No. 8 was 8,40,59 as against a deduction for probable savings in the budget of 7,23,21.

52. *Page 142 and page 145 (East Indian Railway).*—The comment on pages 133 and 134 (*vide* paragraph 50 of this letter) applies here also.

53. *Page 171.*—The actual saving under Grant No. 10 amounted to 3,23,49 against a deduction in the budget for probable savings of 1,81,83.

54. *Page 171—Footnote.*—This seems to require further explanation.

55. *Page 172.*—The comment on pages 133 and 134 (*vide* paragraph 50 of this letter) applies here also.

56. *Page 195.*—Under Grant No. 14 there was a saving of 68,97 or 38 per cent. of the grant. Nothing was deducted for probable savings.

57. *Page 196—note (3).*—The Public Accounts Committee may wish to enquire whether it was known that this rolling stock would be sold when the supplementary grant was obtained.

58. In the following cases provision of funds was made under heads other than those to which the amounts are properly debitable. The Public Accounts Committee may wish to suggest that the provision in the budget estimate in future should be made under the head under which the expenditure will eventually be recorded in the accounts. The case referred to in paragraph 82 is specially serious. The grant was 79,25 and the expenditure 1,85,43.

Page 30—Paragraph 82.

Page 54—Paragraph 136.

Page 96—Bombay, Baroda and Central India Railway (Voted).

Page 105—Lucknow Bareilly Railway.

Page 117—Eastern Bengal Railway and Great Indian Peninsula Railway.

Page 118—Great Indian Peninsula Railway.

Page 121—Bengal Nagpur Railway and Great Indian Peninsula Railway.

Page 122—Tirhoot Railway, Bengal Nagpur Railway and East Indian Railway.

Page 123—Great Indian Peninsula Railway and Tirhoot Railway.

Page 126—Bengal Nagpur Railway.

Page 127—Tirhoot Railway.

Page 145—Assam Bengal Railway.

Page 175—Burma Railways.

Page 176—Burma Railways.

59. The supplementary appropriations in the following cases seem to indicate lack of knowledge of progress of expenditure :—

| | Original Appropriation. | Supplement- ary Approp- riation. | Final Appropriation. | Expendi- ture. | Savings — Excess +. |
|--|----------------------------|--|-------------------------|-------------------|------------------------|
| Page 98—Eastern Bengal Railway | 4,87 | —11 | 4,76 | 6,06 | +1,30 |
| Page 101—Bengal Nagpur Railway | 13,36 | 2,00 | 15,36 | 14,03 | —1,33 |
| Page 101—East Indian Railway | 29,36 | —1,43 | 27,93 | 29,47 | +1,54 |
| Page 106—Total.. | 51,51 | 3,11 | 54,62 | 51,43 | —3,19 |
| Page 109—Great Indian Peninsula Railway .. | 27,00 | 1,00 | 28,00 | 26,16 | —1,84 |

60. In the following cases the original budgeting seems to have been seriously defective :—

| | Original Appropriation. | Expenditure. | Savings — Excess +. |
|---|----------------------------|--------------|------------------------|
| Page 98—Eastern Bengal Railway .. | 4,87 | 6,06 | +1,19 |
| Page 105—East Indian Railway .. | 12,80 | 8,08 | —4,72 |
| Page 106—Great Indian Peninsula Railway | 7,50 | 4,48 | —3,02 |
| Page 107—Bombay, Baroda and Central India Railway | 3,60 | 1,66 | —1,94 |
| Page 107—South Indian Railway .. | 2,90 | 1,56 | —1,34 |
| Page 110—Great Indian Peninsula Railway | 12,50 | 17,04 | +4,54 |
| Page 111—Eastern Bengal Railway .. | 9,90 | 16,15 | +6,25 |
| Page 113—Eastern Bengal Railway .. | 78,48 | 85,55 | +7,07 |
| Page 114—North Western Railway .. | 1,66,64 | 1,90,27 | +23,63 |
| Page 117—North Western Railway .. | 1,12,00 | 67,39 | —44,61 |
| Page 118—Great Indian Peninsula Railway | 2,11,50 | 1,73,25 | —38,25 |
| Page 118—Madras and Southern Mahratta Railway | 96,00 | 72,12 | —23,88 |
| Page 119—North Western Railway .. | 2,03,60 | 1,26,05 | —77,55 |
| Page 121—North Western Railway .. | 1,41,94 | 1,91,10 | +49,16 |
| Page 126—East Indian Railway .. | 43,76 | 68,22 | +24,46 |
| Page 128—Great Indian Peninsula Railway | 2,17,15 | 2,25,88 | +8,73 |
| Page 172—Tirhoot Railway | 5,94 | 5,94 | +5,94 |
| Page 176—General—(aggregate result is .. | 8,93 | 21,51 | +12,58) |

61. *Pages 200 to 207.*—Special attention is invited to this Appendix. It is a notable record of the result of four months' work and while the Public Accounts Committee will probably prefer to wait for a report on a whole year's work before expressing a definite opinion it may wish to concur tentatively with the opinion expressed at the end of paragraph 2.

62. *Page 201—paragraph 3.*—The Public Accounts Committee may wish to know what progress has been made up to date in the catching up of arrears.

63. *Page 202—paragraph 4.*—

- (1) The special attention of the Public Accounts Committee is invited to clauses (v), (vi), (vii), (xii), (xiv), (xxii), the matters mentioned in which are of special importance.
- (2) The Public Accounts Committee may wish to ascertain the present position as regards matters mentioned in clauses (x), (xi), (xiii), (xvi), (xvii), (xxi), (xxii).

Enclosure V (a).

LETTER FROM SIR FREDERICK GAUNTLETT, K.B.E., C.I.E., I.C.S., AUDITOR GENERAL IN INDIA, TO THE SECRETARY TO THE GOVERNMENT OF MADRAS, FINANCE DEPARTMENT, No. 505-ADMN./72-27, DATED THE 21ST APRIL 1927.

SUBJECT:—*Audit and Appropriation Accounts of the Government of Madras for the year 1925-26.*

With reference to Rule 15 (a) of the Auditor General's rules framed under Section 96D (1) of the Government of India Act, I have the honour to transmit herewith two copies of the Audit and Appropriation Accounts of the Government of Madras for the year 1925-26, prepared by the Accountant General, Madras, for submission to the Public Accounts Committee and necessary action by the Government of Madras.

2. Copies of the accounts of receipts and disbursements of the Secretary of State and the High Commissioner for India on account of the Government of Madras for the year 1925-26 together with the Home Auditor's reports thereon will be transmitted to the local Government when copies thereof are received.

3. As a result of an enquiry made by me at the instance of the Central Committee of Public Accounts and the Government of India into the possibility of assimilating Indian Appropriation Reports to the corresponding British reports, I recommended in my report to the Government of India that the present Appropriation Report might be so amplified as to make it a self-contained report like the British report and the complete Audit and Appropriation Accounts referred to in rules 51 and 52 of the Indian Legislative Rules and rules 33 and 34 of the Provincial Legislative Rules. Under the reorganisation suggested by me the present Audit Report should be made a report for the Executive Government only, while the Appropriation Report, to be called hereafter the Audit and Appropriation Accounts, should be made a report for the local Government as well as for the Committee on Public Accounts; and the latter together with the Auditor General's comments thereon should constitute the Audit and Appropriation Reports referred to in Rule 15 (a) of the Auditor General's Rules. In order to obviate confusion, I propose in future to call the former "the Executive Report."

The Government of Madras have since accepted in the main the form of the report outlined in my report of enquiry referred to and the present report has been drawn up accordingly.

The principal changes which have been introduced in the form of this report, with a view mainly to the inclusion therein of all matters falling within the jurisdiction of the Committee on Public Accounts and the remodelling and improvement of the substance thereof on the lines of the British report are briefly enumerated below:—

(a) The accounts of voted and non-voted charges have hitherto been shown separately. A combined account has now been prepared for each grant, the voted and non-voted charges falling under each head of service being shown therein separately and in juxtaposition.

(b) The appropriation account compares the actual expenditure with the grant original as well as supplementary as sanctioned by the authority concerned (*viz.*, the Legislature for voted charges and the Finance Department for non-voted charges). To meet the wishes of the local Government certain old features have, however, been retained, *viz.* final modified re-appropriations and the variations of actuals against them have been exhibited, although this was not contemplated in the scheme for remodelling the report.

(c) Attempts have been made to make the explanations of the variations between Grant and Expenditure fuller than have hitherto been the case by appending suitable notes to the appropriation accounts and supplementary information has also been appended, as far as possible, in respect of certain special transactions, *viz.*, grants-in-aid, store accounts, new major works, losses, etc.

(d) The report on the appropriation accounts has been made more comprehensive by including in it cases of serious financial irregularity, which have hitherto been mentioned in a separate Audit Report, classifying them by Grants so as to enable the Committee on Public Accounts or other authority reviewing a particular appropriation account to deal readily with the serious irregularities connected with it. As the Audit Report for the year 1925-26 has been prepared after the old model and is intended to be placed before the Public Accounts Committee separately, the Accountant General has given only a brief indication of the irregularities under the respective grants by a reference to the relevant paragraphs of the Audit Report. In future the Audit Report will be prepared for the Executive Government only and cases of financial irregularity will be so mentioned in the Audit and Appropriation Accounts as to make the latter self contained and complete.

4. I offer the following comments on the Audit and Appropriation Accounts.

5. *Page V, Introductory, sub-paragraph 2.*—The Government of India have since held that cases arising in a 'backward tract' in which the provisions of Section 72D of the Government of India Act do not apply, do not come under the cognizance of the Public Accounts Committee or the Legislative Council, as the functions of these bodies are regulated by the rules framed under that section of the act.

6. *Chapter I, Provincial Finance.*—So far as can be seen, the normal growth of expenditure is greater than the normal growth of income so that prudent finance would suggest that the additional funds made available for expenditure by the gradual remission of contributions should not be fully utilised in meeting permanent commitments.

7. *Paragraph 18.*—It is often said that remissions of contributions go mainly to Reserved. From the table given below it would appear that, as compared with the year 1921-22, there has been an increase of expenditure met from revenue in 1925-26 under Transferred while there has been a decrease under Reserved. If the figures for provincial contributions are excluded from columns (1) and (2), *viz.* 3,48,00 and 2,21,98 respectively, column (3) of the table would still exhibit a decrease. This seems to indicate that the funds made available for expenditure by the remission of contributions were utilised to a considerable extent in meeting expenditure under Transferred.

| Expenditure excluding that not charged to Revenue. | | | | | | Contributions. | | |
|--|--------------|-------------|--------------|-------------|-----------|----------------|-------------|-------------|
| Reserved. | | | Transferred. | | | 1921-22. | 1925-26. | Decrease. |
| 1921-22. | 1925-26 | Decrease. | 1921-22 | 1925-26. | Increase. | 1921-22. | 1925-26. | Decrease. |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 12,87,00,618 | 11,40,41,325 | 1,37,59,293 | 4,23,68,124 | 4,87,35,309 | 63,67,185 | 3,48,00,000 | 2,21,98,090 | 1,26,02,000 |

8. *Paragraph 23.*—One of the strongest instruments of control given to the Legislature is that no grant can be exceeded without its consent. Any reduction in the number of grants necessarily lessens the power of this control, as it gives scope for transfers between different major heads within a grant of sums voted for different purposes. Further the inclusion under a grant of a considerable number of major heads of expenditure, *e.g.* Grants I and VII may have the effect of lessening the power of control over expenditure by widening the scope for reappropriation. In the circumstances it

is for the consideration of the Public Accounts Committee whether a reduction in the number of grants is desirable.

9. *Paragraph 24.*—The question raised by the Accountant General is both important and difficult. A budget estimate as presented to a Legislative Council presents to the Council an estimate of the net result of the revenue transactions of a year and also an estimate of the closing balance of Government as a whole having regard to revenue, capital and debt transactions. The inclusion within one grant of capital and revenue transactions of the same character enables the local Government to reappropriate between the revenue and the capital account and such re-appropriations will necessarily affect the revenue balance to which the Legislative Council may, and should, attach considerable importance.

On the other hand it is admitted that the question whether expenditure of a capital nature should be met from loan funds or from current revenues is merely a problem of ways and means and it may be convenient for the local Government not to decide until the close of the year how much of such expenditure is to be met from capital and how much from current revenues.

Further a local Government can always affect the Revenue balance by increasing or reducing non-voted expenditure.

It is for the Public Accounts Committee to advise the Legislative Council and Government what view should be taken on this question. I suggest that the real issue can be raised if the Public Accounts Committee will consider whether it shall advise that capital and revenue transactions shall not be included within the same grant.

10. *Paragraphs 25-26.*—A striking instance indicating the desirability of breaking up the minor heads into smaller units is the head "Other Establishments" under "22 General Administration" on page 48 of the report under which the appropriation is over 1,40 lakhs

11. *Paragraph 37.*—As expenditure on a 'new service' requires a supplementary grant, the Public Accounts Committee, on behalf of the Legislative Council, should consider carefully those cases which the audit authorities consider to be 'new services' while Government think the reverse. I have now under discussion with the Government of India a working definition of a 'new service' but I have not yet received an expression of the views of the Government of India. I have elaborated the views to which reference is made in paragraph 37 but for the present I suggest that the Public Accounts Committee accept those views.

There is still disagreement as to the cases (1), (2), (4) and (6) mentioned in paragraph 37. I suggest that all this expenditure is expenditure which has been voted before and therefore is not 'new' in this sense. In case (1) the expenditure was quite inevitable and I think the Public Accounts Committee would exercise a wise discretion if it were to accept the view that in this case the expenditure was not on a 'new service'. In case (4) the expenditure, in my opinion, is not sufficiently large to warrant classification as on a 'new service'. As regards case (6), the commercialisation of a concern entails upon Government the liability of making good losses on working. Such expenditure therefore cannot be regarded as pertaining to a 'new service'. Thus in my view case (2) is the only doubtful case and I am inclined to think that an expenditure of Rs. 16,335 on the purchase of a new official building is of sufficient importance to be regarded as on a 'new service'.

12. *Paragraph 38.*—The Public Accounts Committee will doubtless desire to investigate the reason for not obtaining the supplementary vote of the Council in 1925-26 for this 'new service', specially in view of the fact that the necessity for the same was brought to the notice of the local Government by the Accountant General as early as in September 1925.

13. *Paragraph 39.*—

| | |
|----------------------------------|----------|
| Total Appropriation is | 17,80,64 |
| „ Expenditure is | 16,88,39 |

| | |
|-----------------------|--|
| Savings are | 92,25 or 5·2 per cent. of the total Appropriation. |
|-----------------------|--|

This is much larger than the percentage which is regarded as a reasonable saving on a close estimate, and the Public Accounts Committee may desire to investigate the system of budgeting under those grants in which the largest percentages of savings occur as shown in paragraphs 41 and 42 of the report, *e.g.*, Stamps, Forests, Irrigation, Public Health, Industries, Civil Works, Stationery and Printing and Loans and Advances.

14. *Paragraph 40—Stationery and Printing.*—As there were excesses under this head in the two previous years, and as the slight excess under 'Stationery and Printing' (Transferred) is accompanied by a very heavy saving of over 26 per cent. under 'Stationery and Printing' (Reserved) the Public Accounts Committee may like to enquire into the system of budgeting under this head.

15. *Paragraph 46.*—The attention of the local Government is invited to the Accountant General's remarks contained in this paragraph.

16. *Paragraphs 48 to 52.*—I endorse the Accountant General's views expressed in these paragraphs. Some striking instances in support of his views will be found in the notes on—

Page 46—item (3) voted).

Page 48—item (10).

Page 99—item (1) (voted).

Page 103—item (1) (d) (voted).

Page 107—item (3) (b) (voted).

Page 119—item (12) (b) (voted).

Page 120—item (15) (voted).

Page 159—item (2) (voted).

The Central Public Accounts Committee in paragraph 13 of their report on the accounts of the year 1924-25 said on this subject—

"We have devoted careful consideration to the evidences of a tendency to over-estimate expenditure in the preparation of Demands for Grants which are afforded by numerous instances brought to notice in the Appropriation Accounts now under review. It appears to us that this tendency to over-estimate is particularly noticeable (a) in the provision made for establishments and (b) in the sums entered under heads relating to expenditure on works whether chargeable to capital or to revenue. It seems to have been the regular practice for the provision under such heads as pay of establishments to be calculated on the basis of existing cadres with little reference, if any, to the probability of savings due to casualties, leave, seconding to other duties, and so on. The result is that at the end of the year comparatively large underspendings are brought to light for which allowance might well have been made in the original estimates. The existence of such margins facilitates re-appropriations to purposes not contemplated at the time when the budget was framed, for which no specific authorisation has been obtained from the Assembly, and even if, as we are assured is the case and as the comparatively large realised surpluses on recent budgets tend to prove, the Finance Department has been increasingly strict in recent years in preventing such re-appropriations, we are nevertheless of opinion that steps should be taken to ensure that the provision under such heads as pay of establishment should be based not only on existing cadres, but also on the experience of previous years, and a suitable lump sum deduction made for probable underspendings under these particular heads. The Finance Department have already introduced with advantageous results in the past two years the system of making lump sum cuts in the demands for grants as a whole to allow for probable underspendings and we expect that the effect will be to reduce the extent of underspendings disclosed in the estimates of 1925-26 and 1926-27. We are inclined to the opinion, however, that this system should be applied more boldly than has yet been the case, and that further improvement could be obtained if

careful statistics were kept of the proportion between actual expenditure and estimate based on the existing cadres under establishment heads."

I trust this important matter will receive the careful reconsideration of the Public Accounts Committee. I regard this as one of the main causes of the overbudgeting to which attention has been drawn in paragraph 13 of this letter.

17. *Paragraph 61.*—I invite the attention of the local Government to the comments made in my letter No. 1127-Admn./425-26, dated the 10th November 1926 forwarding the Audit Report for 1925-26.

The Audit Report was prepared on the old lines on the understanding that it would be presented to the Public Accounts Committee. I trust that the Report together with my comments thereon will be so presented.

18. *Paragraphs 66 and 67.*—The matter is under reference to the Government of India.

19. *Paragraph 70.*—I quote below the orders issued by the Government of India in paragraph 12 of their Finance Department Resolution No. D.-1089-A., dated the 1st June 1926 and suggest that the local Government should consider the adoption of a similar procedure in their province.

"The Governor General in Council has also had under consideration the question of expenditure under the various sub-heads within a grant. Certain powers of reappropriation within a grant are at present possessed by various authorities under rules framed by the Finance Department, and in theory the spending authorities are expected to transfer savings from sub-heads where such occur to meet excess expenditure under other sub-heads in the same grant, obtaining the concurrence of the Finance Department to such re-appropriations where necessary. These re-appropriations cannot, however, be formally made after the close of the year in which the expenditure occurs. In such a case the question arises whether it is not desirable to prescribe some action in order to ensure that the circumstances in which excesses under sub-heads occurred, and were not met by re-appropriation from other sub-heads, should be reviewed by higher authority. These will, of course, be brought to notice in the Appropriation Report and will be scrutinised by the Public Accounts Committee: but the Governor General in Council considers it desirable that, before the scrutiny by the Public Accounts Committee there should be a preliminary examination by the Department responsible for the grant. He has accordingly decided that in all cases, whether the expenditure is voted or non-voted, the Department responsible for the grant should take steps to scrutinise such excesses to find out whether these were avoidable or not and whether funds could not have been re-appropriated before the close of the year, and to give instructions to the authority actually administering the grant as to any change of procedure which may be necessary to secure proper control over the expenditure. Though technically re-appropriation is impossible after the close of the year, all excesses should thus be formally reported for sanction, and if the grant as a whole is not exceeded and if re-appropriations could have been made before the expiry of the year by the Department, the excess should formally be sanctioned by the Department. If re-appropriations could not have been made without the sanction of the Finance Department, such excesses should receive the sanction of that Department. In cases where the grant as a whole has been exceeded, an additional grant should be asked for from the Finance Department in the case of non-voted expenditure or obtained from the Assembly in the case of voted expenditure."

In this connection I invite the attention of the Public Accounts Committee to paragraph 12 of this office letter No. 224-Admn./53-26, dated the 26th February 1926 forwarding the Appropriation Report for 1924-25 to the local Government and also to the final excesses in Grants II, XI, XVIII, XIX, XXVII and XXXIII.

20. *Page 45—Head (2) Survey and Settlement*—The Public Accounts Committee might like to enquire why it was not possible to frame a more accurate Survey and Settlement programme when the budget was under preparation. For instance was it not known that the Survey of the Sivaganga Estate would be continued during the year 1925-26. This survey resulted in large additional expenditure and additional recoveries.

21. *Pages 46 to 48—Heads (3), (8) and (10)*.—There appears to be scope for considerable improvement in budgeting under these heads.

22. *Page 51.—Paragraph 1 of review*.—The local Government will doubtless take steps to avoid such miscalculations and the supply of incorrect figures reported by the Accountant General.

23. *Page 52.—(a) Paragraph 4*.—The attention of the local Government is specially invited to the Accountant General's remarks in this paragraph and also to similar remarks in paragraph 4 on page 110, note under item (1) voted—allowances on page 129 and under item (4) voted—honoraria on page 131.

(b) *Paragraph 6*.—I invite attention to paragraph 27 of my letter forwarding the Audit Report for 1925-26.

(c) *Paragraph 8*.—The question referred to in this paragraph has been referred to the Government of India.

24. *Page 57.—(a) Paragraph 3*.—Attention is invited to my comments on paragraph 37 of the report in paragraph 11 of this letter.

(b) *Paragraph 4*.—Attention is invited to paragraph 18 of my letter forwarding the Audit Report for 1925-26.

25. *Page 58—Head (6)—Cost of Stamps manufactured in India*.—It is not clear why the Superintendent of Stationery did not take action to ascertain from the Security Press the probable value of supplies during 1925-26 when the supplies commenced in January 1926 and to obtain appropriation before the close of the year.

26. *Page 59—Explanation under items (10) and (13)*.—The Public Accounts Committee may like to enquire the reasons for the faulty budgeting in connection with the expenditure in England. A reference to the stock account on pages 60 and 61 seems to show that the smaller purchases were possible owing to the large stocks at the beginning of the year which were reduced considerably during the course of the year.

27. *Page 69—paragraphs 7 and 8*.—I invite attention to paragraphs 16, 23, 25, 26 and 31 of my letter forwarding the Audit Report for 1925-26.

28. *Page 76—Item (5)*.—It is not clear why the excess under non-voted could not have been rectified before the close of the year.

29. *Page 76—Head (7)—Extensions and improvements*.—The supplementary grant seems to have been unnecessary. The Public Accounts Committee may desire to investigate whether this is not due to defective budgeting.

30. *Page 84—paragraphs 1 and 2 of the review*.—Attention of the Public Accounts Committee is invited to the Accountant General's remarks in these paragraphs.

31. *Page 85.—(a) Paragraph 4*.—The Public Accounts Committee may desire to express the hope that this scheme of control will effect an improvement for which there seems to be much scope.

(b) *Paragraph 5*.—I invite attention to paragraphs 11 and 13 of my letter forwarding the Audit Report for 1925-26.

32. *Page 87—Paragraph 8*.—This Statement does not include indirect charges; it shows only the direct charges as shown in Account No. 33 of the Finance and Revenue Accounts. The total indirect charges debitable to Capital Account of Irrigation Works in Madras as shown in the Administrative Accounts amounted to Rs. 90,766 during 1925-26 and to

Rs. 68,89,916 to the end of that year. The indirect charges debitable to the working expenses of the Irrigation Works in Madras during 1925-26 amounted to Rs. 1,60,950.

33. *Page 97.—(a) Paragraph 4.*—I invite attention to my comments on paragraph 37 of the report in paragraph 11 of this letter.

(b) *Paragraphs 6 and 7.*—I invite attention to paragraph 30 of my letter forwarding the Audit Report for 1925-26.

34. *Page 99—Note under item (1) voted.*—With reference to the last three lines the attention of the Public Accounts Committee is invited to the provision in paragraph 7 of the Treasury Orders that 'Departmental receipts shall not be appropriated to meet departmental expenditure except with the sanction of the Governor General in Council'. This is a fundamental rule of extreme importance.

35. *Page 104—Note under Minor Head (2)—Jail Manufactures.*—The attention of the Public Accounts Committee is invited to this note.

36. *Pages 104 and 105—Paragraph 2 of the review.*—I invite attention to paragraphs 9, 22, 23 and 30 of my letter forwarding the Audit Report for 1925-26.

37. *Page 107—Minor head (3).*—Special attention is invited to the explanation of excess under (e) Contract contingencies.

38. *Pages 110 and 111.—(a) Paragraph 7.*—If the system of contract contingencies as now worked implies nothing more than that the items are not subject to countersignature and audit, the element of a "contract" or fixed annual limit has been dropped and the term 'Contract Contingencies' is a misnomer. If this is the position I shall certainly consider whether I should not reimpose an audit. The Public Accounts Committee may like to investigate the position.

(b) *Paragraph 10.*—The local Government may desire to investigate whether adequate arrangements exist for the safe custody of the blank warrant forms.

39. *Page 117—Head (6) Government Secondary Schools, page 119—Head (12) Government Special schools—and page 120—Head (15) Inspection.*—The circumstances in which supplementary grants were sanctioned are not given. Apparently they were unnecessary and indicate want of knowledge of the progress of expenditure.

40. *Page 129—Note under the Head (2) Hospitals and Dispensaries—Voted.*—The accounts maintained by the Accounts Department are the official accounts and must be accepted. It is for the Surgeon General to prove to the Accountant General that his figures are wrong and thus induce him to correct his figures. This is the reason why a procedure has been introduced for the reconciliation of differences between the accounts figures and the departmental figures which is referred to in paragraphs 44 to 46 on pages 31 and 32 of this report.

41. *Page 130—Note under the head (2) Hospitals and Dispensaries—Voted—Deduct Charges.*—The Public Accounts Committee may wish to suggest that the Government should be more zealous in pressing for prompt payment by local bodies.

42. *Page 132—paragraph 1 of review.*—The Public Accounts Committee may like to ascertain what improvement has been made in the machinery of the department for the estimating of and control over expenditure. The detailed audit report of this grant indicates that there is much room for improvement in these directions. Special arrangements seem desirable under grants-in-aid for control over expenditure in view of the report made by the Surgeon General. The same defect is noticeable under the head grants-in-aid in Grants XIX—Public Health (page 136—paragraph 1) and XXVII—Civil Works [page 163—item (1)].

43. *Page 133—paragraph 3.*—I invite attention to paragraphs 21 and 23 of my letter forwarding the Audit Report for 1925-26.

44. *Page 141—paragraph 2.*—I invite attention to paragraphs 17 to 19 and 24 of my letter forwarding the Audit Report for 1925-26.

45. *Page 144—paragraph 2 of review.*—Attention is invited to paragraph 18 of my letter forwarding the Audit Report for 1925-26.

46. *Page 153.*—It is understood that the Fruit Preserving Institute is being closed down. The Public Accounts Committee may wish to consider whether it will advise Government to close the Leather Trades Institute also in view of the heavy losses.

47. *Page 155—paragraph 2 of the review.*—The attention of the Public Accounts Committee is invited to the suggestion of the Accountant General at the end of this paragraph.

48. *Page 159—Head (2) Miscellaneous—Voted.*—The Public Accounts Committee may like to enquire why a supplementary grant of Rs. 18,400 was asked for in February 1926 when the 9 months figures foreshadowed a saving of over a lakh in the total grant.

49. *Page 163—Head (1) Grants-in-aid.*—A withdrawal of 7,27 leading to an excess of 6,07 seems to indicate inadequate appreciation of liabilities which may mature for payment before the close of the year.

50. *Pages 171 to 181—Review on Grant XXVIII Civil Works.*—I invite the special attention of the Public Accounts Committee to the whole of this review.

As regards the cases of financial irregularities mentioned in paragraphs 10 and 11 on page 176 attention is invited to paragraphs 6 to 8, 10 to 12, 14, 15, 28 and 29 of my letter forwarding the Audit Report for 1925-26.

51. *Pages 185 and 186—Review on Grant XXIX Pensions.*—I draw attention of the local Government to paragraph 2 on page 186 with a view to improving the estimating for pensions. I also invite special attention to paragraph 3 which relates to grave delays in sanctions to pensions.

52. *Page 197—Review—(a) Paragraph 3.*—Attention is invited to paragraphs 18 and 20 of my letter forwarding the Audit Report for 1925-26.

(b) Paragraph 4.—A reference is invited to my comments on paragraphs 66 and 67 of the report *vide* paragraph 18 of this letter.

Enclosure V (b)

FROM SIR FREDERIC GAUNTLETT, K.B.E., C.I.E., I.C.S., AUDITOR GENERAL IN INDIA, TO THE SECRETARY TO THE GOVERNMENT OF MADRAS, FINANCE DEPARTMENT, No. 702-ADMN./72-27, DATED THE 21ST MAY 1927.

SUBJECT.—*Reports of the Auditor of the (India) Home Accounts for 1925-26.*

In continuation of my letter No. 505-Admn./72-27, dated the 21st April, 1927, forwarding Audit and Appropriation Accounts of the Government of Madras for 1925-26, I have the honour to transmit herewith two copies of the account of the receipts and disbursements of the Secretary of State and the High Commissioner for India on the accounts of the Government of Madras for 1925-26 together with two copies of the Appropriation Accounts, and the reports thereon prepared by the Auditor, (India) Home Accounts.

2. The attention of the Public Accounts Committee is invited to paragraph 4 of the Auditor's report on the accounts of the High Commissioner for India. For the reasons mentioned below transfers of funds from voted grants to non-voted heads, as noticed in sub-paragraph 5 of this paragraph, are to be considered as unconstitutional.

It has since been recognised by the Government of India that once a demand has been voted by a Legislative Council there is no provision either in the Government of India Act or in rules made thereunder which permits the grant being reduced on the motion either of the Government or of a non-official Member. On the other hand a local Government is

entitled to sanction supplementary funds for any non-voted service and such sanction is fully justified if Government is assured that there will be a saving under a specified voted grant. It is also entitled to issue executive orders to the authority controlling any specified voted grant to restrict the expenditure within a specified figure. Thus it will be seen that a formal re-appropriation from a voted grant to a non-voted service is not permissible as the reduction by any authority of a grant voted by the Council is unconstitutional as stated above.

Enclosure VI.

FROM SIR FREDERIC GAUNTLETT, K.B.E., C.I.E., I.C.S., AUDITOR GENERAL IN INDIA, TO THE SECRETARY TO THE GOVERNMENT OF BOMBAY, FINANCE DEPARTMENT, No. 780-Admn./73-27, DATED THE 1ST JUNE 1927.

SUBJECT.—*Appropriation Report on the accounts of the Bombay Presidency (including Sind) for the year 1925-26.*

With reference to Rule 15 (a) of the Auditor General's rules framed under Section 96-D (1) of the Government of India Act, I have the honour to transmit herewith two copies of the Appropriation Report on the accounts of the Bombay Presidency (including Sind) for the year 1925-26, prepared by the Accountant General, Bombay, for submission to the Public Accounts Committee and for necessary action by the Government of Bombay. I also transmit herewith two copies of the Appendix to the report for action by the Government of Bombay. This appendix does not concern the Public Accounts Committee.

2. Two copies of the accounts of the receipts and disbursements of the Secretary of State and the High Commissioner for India on account of the Government of Bombay for the year 1925-26, together with two copies of the Appropriation Accounts, and the reports thereon prepared by the Auditor of the (India) Home Accounts are also forwarded herewith.

3. I offer the following comments on the Appropriation Report.

4. *Paragraph 5.*—(a) The Council cut proper amounts to 38,02 and not 41,03 as shown in the statement on page 30 from which the amount of 50,00 on account of "Loans and Advances bearing interest" should be omitted as this cut was not made by the Council. The cut by the local Government in the voted grants amounts to 1,01,69 and not 98,68. The cut by the local Government after the Demands were voted was unconstitutional in view of the circumstances explained in paragraph 13 of this letter.

(b) It would appear from paragraph 5 of the report that, in the final estimate, the opening balance of the year under review was anticipated at 5,36,15 whereas the actual opening balance of the year (*vide* paragraph 7 of the report) was 6,68,17 or in excess of the estimated opening balance by no less than 1,32,02. The Public Accounts Committee may wish to investigate this very large discrepancy as it is obvious that it is impracticable to make a satisfactory estimate of ways and means if the forecasted opening balance of a year is liable to be incorrect to the extent of about 1½ crores.

5. *Section II—Provincial Finance.*—Attention is invited to paragraph 3 of my letter No. 562-Admn./K.W.-48-26, dated the 7th June 1926, forwarding the Appropriation Report for the year 1924-25. From the present report it appears that the position is becoming more serious. In the year under review the revenue of the province has not been sufficient even to cover the ordinary expenditure therefrom (including interest on the advances obtained from the Provincial Loans Fund for Development purposes and on the Bombay Development Loan) and from the statement given in paragraph 15 it appears that the position will be worse in 1926-27 owing to the further growth of expenditure from ordinary revenues without a corresponding increase in the income. Even the remission of the full amount of the contribution payable to the Central Government will not be sufficient to bridge the big gap between revenue and expenditure including statutory

obligations and payments under schemes for the amortization and repayment of loans. As regards the latter I invite special attention to clauses (iii), (iv) and (v) of paragraph 18 of the report, from which it appears that no definite understanding has been arrived at with the Central Government regarding the repayments of the loans taken from the Provincial Loans Fund since 1921-22. Any scheme for repayment will doubtless throw a further heavy burden on the ordinary revenues. The whole financial position is such as to excite anxiety and it appears necessary that it should receive special consideration.

6. *Paragraph 50.*—A memorandum was prepared by me on the question of the treatment of gross and net grants and the accounting problems involved therein which was discussed at the conference of the Financial Representatives held in Delhi in November 1926. It was agreed that the rules proposed in paragraph 12 of my memorandum should be tentatively adopted in all provinces. As, however, the promulgation of the rules is likely to necessitate considerable changes in the forms of Provincial demands for grants and as it is essentially desirable that the form of the Budget should conform, as far as possible, to the form of the final accounts, I have called for the considered opinion of the local Governments on the subject before taking final action *vide* my letter No. 613-Ac./507-Audit-23, dated the 8th March 1927. The views of the local Governments are awaited.

7. *Paragraphs 56 and 57.*—I fully endorse the views expressed in these paragraphs.

The total savings represents about 15 per cent. of the total final grant—both voted and non-voted taken together. This is much larger than the percentage which is regarded as a reasonable saving on a close estimate. I may remark that in England the Comptroller and Auditor General in commenting on the Civil Services Appropriation Accounts for 1925-26 pointed out that the savings were 1.5 per cent. The Public Accounts Committee may desire to investigate the system of budgeting under those grants in which the largest percentage of savings occur, *e.g.*, "Forest Capital Outlay charged to Revenue" (26 per cent.), "Agriculture and Civil Veterinary Department" (12 per cent.), "Industries" (31 per cent.), "Miscellaneous Departments" (14 per cent.), "Stationery Printing" (27 per cent.), "Stamps" (32 per cent.), "Expenditure charged to Capital—Irrigation" (29 per cent.), "Public Health" (22 per cent.), and the "Bombay Development Scheme" (48 per cent.).

It appears that very considerable savings result under a great number of the grants under "Pay of Officers", "Pay of establishment" and "Works", the excess provision for leave salary under the first two heads being a noticeable feature. The unit "Contingencies" is also not unworthy of notice. In regard to the savings under "Pay of establishment" the Central Public Accounts Committee in paragraph 13 of its report on the accounts of the year 1924-25 remarked.

"We have devoted careful consideration to the evidences of a tendency to over-estimate expenditure in the preparation of Demands for Grants which are afforded by numerous instances brought to notice in the Appropriation Accounts now under review. It appears to us that this tendency to over-estimate is particularly noticeable (a) in the provision made for establishments and (b) in the sums entered under heads relating to expenditure on works whether chargeable to capital or to revenue. It seems to have been the regular practice for the provision under such heads as pay of establishments to be calculated on the basis of existing cadres with little reference, if any, to the probability of savings due to casualties, leave, seconding to other duties, and so on. The result is that at the end of the year comparatively large underspendings are brought to light for which allowance might well have been made in the original estimates. The existence of such margins facilitates re-appropriations to purposes not contemplated at the time when the budget was framed, for which no specific authorisation has been obtained from the

Assembly and even if, as we are assured is the case and as the comparatively large realised surpluses on recent budget tend to prove, the Finance Department has been increasingly strict in recent years in preventing such re-appropriations, we are nevertheless of opinion that steps should be taken to ensure that the provision under such heads as pay of establishment should be based not only on existing cadres, but also on the experience of previous years, and a suitable lump sum deduction made for probable underspendings under these particular heads. The Finance Department have already introduced with advantageous results in the past two years the system of making lump sum cuts in the demands for grant as a whole to allow for probable underspendings, and we expect that the effect will be to reduce the extent of underspending disclosed in the estimates of 1925-26 and 1926-27. We are inclined to the opinion, however, that this system should be applied more boldly than has yet been the case, and that further improvement could be obtained if careful statistics were kept of the proportion between actual expenditure and estimate based on the existing cadres under establishment heads."

In the case of Bombay this remark seems to be applicable both to 'Pay of officers' and 'Pay of establishment' (as regards the former attention is invited to the comments in paragraph 20 below), and I trust that this important matter will receive the careful consideration of the Public Accounts Committee when investigating the system of budgeting referred to above. I regard this as one of the main causes of the overbudgeting to which I have already drawn attention. The savings under 'Pay of establishment' in the 'Police' grant alone amount to nearly 2 lakhs, *vide* page 58.

As regards 'words' it appears that the tendency is to provide money for more work than the department can ordinarily handle, and the savings under 'Contingencies', especially those noticed in note C, item (7) on page 56, note D, item (1) and note C, item (3) on page 58, note D, item 1 on page 64 and note C, item (2) on page 65, seems due to the tendency of the departmental officers to demand more money on fluctuating charges than they ordinarily require.

8 *Paragraph 58*.—The special attention of the Public Accounts Committee is invited to excesses over the voted grants mentioned in this paragraph, which require the sanction of the Council.

As regards the gross and net grants attention is invited to my remarks in paragraph 6 of this letter.

9. *Paragraph 62*.—(a) The additional grants sanctioned by the Council seems to have been unnecessary in all cases except under 'Agricultural and Civil Veterinary Department' and 'Civil Works', if in the latter case the additional grants were for new services. Similarly the additional appropriation sanctioned by the Finance Department for non-voted expenditure under '5—Land Revenue' (those sanctioned in February and March) '8—Forest' (Rs. 20,000—*vide* note under Item (3)-A on page 83), '25—Jails and Convict Settlements', '26—Police' and '33—Public Health' also seem to have been unnecessary. I agree with the view of the Accountant General that in all the cases mentioned in this paragraph the savings indicate lack of knowledge of the progress of expenditure on the part of the controlling officers, and the Public Accounts Committee will doubtless desire to investigate whether the control of expenditure is not defective in these quarters. In this connection I also invite attention to my comments regarding unnecessary reappropriations under

Item (3) on page 47 of the report,

Item (2) on page 50 of the report,

Item (5) on page 64 of the report; and

Item (1) D on page 71 of the report,

vide paragraphs 14, 16, 25 and 30 of this letter.

(b) As the figures indicating the progress of expenditure in the earlier part of the year are not always a safe guide for determining whether

additional funds will be really necessary to meet any additional expenditure, it is for consideration whether it should not be prescribed that ordinarily additional funds should not be obtained except for new services, until the latter part of the year when more reliable figures are available.

10. *Paragraph 63.*—The attention of the local Government is invited to the last portion of the second sub-paragraph.

11. *Paragraph 64.*—I endorse the view expressed by the Accountant General.

12. *Paragraph 65.*—The Public Accounts Committee may desire to ascertain whether more accurate estimating is not possible under these heads.

13. *Pages 45 and 46.*—In some cases (*e.g.*, Forest—Transferred, Jails and Convict Settlements—Reserved, Civil Works—Transferred, Miscellaneous—Reserved and Miscellaneous—Transferred) the grants already sanctioned by the Legislature have been reduced by the vote of the Council. It has since been recognised by the Government of India that once a demand has been voted by a Legislative Council there is no provision either in the Government of India Act or in rules made thereunder which permits of the grant being reduced on the motion either of the Government or of a non-official Member. Such reduction of grants are therefore *ultra vires* of the Statutory Rules.

It also appears from the statement that the modifications sanctioned by other competent authorities had in some cases (*e.g.*, Land Revenue—Reserved, Education—Transferred, Medical—Transferred, Public Health—Transferred) the effect of reducing the grants sanctioned by the Legislature. From the reasons given against items 1 to 3 on page 102, and 169 on page 109 it further appears that re-appropriations have been made by the local Government from voted to non-voted heads. For the reasons given above such modifications by any authority of grants voted by the Council are also unconstitutional. The local Government is however entitled to issue executive orders to the authority controlling any specified grant to restrict the expenditure within a specified figure. On the other hand it is also entitled to sanction supplementary funds for any non-voted service against earmarked savings under specified voted grants. When therefore a definite lapse is anticipated in the provision made under a voted grant the proper course is to take the surrendered amount into a reserve within the grant at the disposal of the local Government and to obtain the requisite sanction for any additional allotment required to meet excess expenditure elsewhere, one argument in support of this request for additional allotment being that money is available in the reserve.

14. *Page 47—note under Item (3) Land Records.*—The special attention of the Public Accounts Committee is invited to the concluding remark of the Accountant General regarding inadequate knowledge of the progress of expenditure.

15. *Page 48—note under Item (5).*—The explanation of the Accountant General regarding the excess under this head suggests the desirability of bringing prominently to the notice of the controlling officers the fact that no satisfactory control over expenditure is possible unless a careful watch is kept over commitments and liabilities.

16. *Page 50—Forest (voted)—note under Item (2)—Conservancy and Works.*—The attention of the Public Accounts Committee is invited to the remarks of the Accountant General that the financial control under this head was defective inasmuch as there was no proper knowledge of the progress of expenditure.

17. *Page 50—8A Forest Capital Outlay.*—The saving constitutes 26 per cent. of the grant voted by the Council. This is mainly due, it appears, to the late allotment of funds and it is desirable that every effort should be made to allot funds for expenditure as early as possible in the year.

18. *Page 53—note under Item (8).*—The attention of the Public Accounts Committee is invited to this note from which it appears that there is ample scope for improvement in the method of budgeting.

19. *Page 53—note under Item (20).*—The comment seems to indicate that the Public Accounts Committee might profitably ascertain what happened.

20. *Page 58—note under Item (3).—District Executive Force.*—The special attention of the Public Accounts Committee is invited to the savings of Rs. 1,27,000 under 'Pay of officers'. Rs. 90,000 out of this is stated to be due to the pay of certain officers under 'voted' having been debited in the 'non-voted' section owing to their reappointment to the Indian Police Service by the Secretary of State. But it will be seen from the account for Police 'non-voted' on page 87 that even with this transfer of Rs. 90,000 there was a saving under non-voted. The inference is that the original budgeting was defective and that sufficient allowance for probable savings was not made in respect of 'Pay of officers'.

21. *Page 61—Head (6) Government Secondary Schools.*—The original appropriation of Rs. 11,15,000 was increased during the year by competent authorities to the extent of Rs. 27,097 and in March 1926 a further amount of Rs. 23,000 was provided by supplementary grant. Despite this addition the final actual expenditure was less than the original grant. The control over the progress of expenditure was apparently defective as the supplementary grant in March 1926 proved to be unnecessary.

22. *Page 61—Head (7).*—The attention of the Public Accounts Committee is invited to the explanation (on page 62) of the large savings of Rs. 82,121. Although the original grant was increased by a supplementary grant and additional appropriation was sanctioned by competent authorities, the actual expenditure fell short of the original grant. It would appear that the fact that building grants provided for in the budget for 1925-26 had already been paid towards the close of 1924-25 escaped attention. The position appears to indicate defective control over the progress of expenditure.

23. *Page 61—Head (12)—Government Special Schools.*—The supplementary grant of Rs. 17,000 was sanctioned in March 1926, proved unnecessary and this would appear to be a further instance of insufficient knowledge of the Progress of expenditure.

24. *Page 63—Medical—Transferred—Head (2) Hospitals and Dispensaries.*—The supplementary grant of Rs. 55,607 sanctioned in March 1926, appears to have been unnecessary seeing that the final expenditure was nearly a lakh short of the original grant. The Public Accounts Committee may like to ascertain why there was inadequate knowledge of progress of expenditure.

25. *Page 64—note under Item (5).*—The attention of the Public Accounts Committee is invited to the remarks of the Accountant General regarding inadequate knowledge of the progress of expenditure.

26. *Page 64—note under Item (6).*—An important change, if given effect to during the currency of the year, nullifies any comparison of actuals with estimates.

27. *Page 69—note under Items (21) and (22).*—I endorse the view expressed by the Accountant General that there is still much scope for further improvement.

28. *Page 69, note under Item (24).*—The Public Accounts Committee may like to investigate this large saving of nearly 5 lakhs under "Suspense".

29. *Page 70, Superannuation Allowances and Pensions (voted), Head (8).*—The actual transfer to Commercial Department was Rs. 5,39,884 against the original grant of Rs. 60,000. The Public Accounts Committee may desire to investigate the reason for the very great difference between budget and actuals.

30. *Page 71, note under Item (1)-D.*—The Public Accounts Committee may like to investigate the necessity for the additional appropriations sanctioned during the year, which would appear to point to a want of knowledge of the progress of expenditure.

31. *Page 71, note under Item (7).*—The Public Accounts Committee may wish to ascertain why no provision was made for these recoveries in the estimates.

32. *Page 72, note under Item (4).*—The excess over appropriation was the very large sum of Rs. 5,20,554. It seems likely that the proposal to write off this large amount must have been under discussion during the year and it is therefore not clear why appropriation was not arranged for. The Public Accounts Committee might desire to investigate this.

33. *Page 73.*—The items on this page indicate transfers from the grant for 'Miscellaneous'—Reserved—voted to other grants, *e.g.*, Police, Land Revenue, etc. Re-appropriations between voted grants are unconstitutional. The additional amounts required under the Service heads should have been obtained by the voting of supplementary grants, accompanied by an executive order of the Finance Department limiting expenditure under "Miscellaneous—Unforeseen charges" by similar amounts.

Similar remarks apply to some of the items in the statement on page 74 also, *e.g.*, the transfers to '34—Agriculture,' '33—Public Health'.

34. *Page 76, note under Item (1).*—Similar large savings occurred in the provision for the Lloyd Barrage and Canal Construction Scheme in 1924-25. The Accountant General rightly points out that over estimating leads to serious results and the Public Accounts Committee may wish to scrutinise closely the system of budgeting.

35. *Page 77, Expenditure charged to Capital, Public Health, notes under Items (1) and (3) under Reserved and Item (1) under Transferred.*—The Public Accounts Committee may like to consider whether funds should be provided before all proceedings in connection with the acquisition of lands are completed or at least before there is reasonable probability that those proceedings will be completed in time to permit of the expenditure of funds on construction.

36. *Page 78, Deduct Receipt on Capital Account, Rs. 78,296.*—The Public Accounts Committee may desire to enquire whether these recoveries could not be anticipated and necessary provision made in the budget.

37. *Page 82, Land Revenue, note under Item (4) (ii), page 83, Irrigation note under Items (1) to (3), page 89, Medical, Reserved note under Item (1) and page 95, Construction of Irrigation Works, note under items (2) to (4).*—It is presumed that in future provision will be asked for under the head under which the expenditure will appear in the accounts.

38. *Page 84, note under Item (2) (c).*—It is not clear why provision was not made to the extent anticipated in the Revised Estimate.

39. *Page 85, General Administration, note under Item (12).*—My remarks in paragraph 15 of this letter apply here also.

40. From the non-voted section of the appropriation Account it appears that provision for giving effect to the Lee Commission recommendations was pitched too high in many cases—specially under (1) Forest, (2) General Administration, (3) Police and (4) Medical and it is not clear why a closer estimate was not possible.

Enclosure VII.

LETTER FROM SIR FREDERIC GAUNTLETT, K.B.E., C.I.E., I.C.S., AUDITOR GENERAL IN INDIA; TO THE SECRETARY TO THE GOVERNMENT OF BENGAL, FINANCE DEPARTMENT, No. 665-ADMN./74-27, DATED THE 16TH MAY 1927.

SUBJECT:—*Audit and Appropriation Accounts of the Government of Bengal for the year 1925-26.*

With reference to rule 15 (a) of the Auditor General's Rules framed under Section 96D (1) of the Government of India Act, I have the honour to transit herewith two copies of the Audit and Appropriation Accounts of the Government of Bengal for the year 1925-26, prepared by the Accountant General, Bengal, for submission to the Public Accounts Committee and

necessary action by the Government of Bengal. Two copies of the accounts of the receipts and disbursements of the Secretary of State and the High Commissioner for India on the accounts of the Government of Bengal for the year 1925-26 together with two copies of the Appropriation Accounts, and the reports thereon prepared by the Auditor of the (India) Home Accounts, are also forwarded herewith.

2. I offer the following comments on the Audit and Appropriation Accounts.

3. *Second paragraph of the "Introductory" on page (iii).*—In this connection attention is invited to sub-paragraph (i) of paragraph 53 of the Audit and Appropriation Accounts for 1924-25. The statement made in the last four lines of the second paragraph on page (iii) of the present report is in accordance with my recent decision. In order to obviate confusion the Audit Report, which is now intended for the Executive Government will, in future, be called the "Executive Report."

4. *Third paragraph of the "Introductory" on page (iii).*—The Government of India have since held that cases arising in a "backward tract" in which the provisions of Section 72D of the Government of India Act do not apply, do not come under the cognizance of the Public Accounts Committee or the Legislative Council, as the functions of these bodies are regulated by the rules framed under that section of the Act.

5. *Page iv, Section III, lines 13 and 14.*—The powers of the Auditor General are limited by the ultimate powers of the Secretary of State in respect of the form of the Finance and Revenue Accounts. No important change affecting the form of those accounts can be made without his sanction.

6. *Pages iv and v, Section iv.*—(a) *Line 5 from the bottom on page iv.*—The statement here is too emphatic. I should prefer to say that the Committee is competent to suggest that the disciplinary action taken in a particular case seems to be inadequate.

(b) I endorse the remarks made by the Accountant General in the last portion of sub-paragraph 1 of this section. While I am of opinion that the disciplinary action against those actually committing irregularities is generally adequate, I am impressed by the extent to which inadequate supervision and control has contributed to these irregularities, and I doubt whether adequate action is taken in all cases to bring home their responsibilities to controlling and supervising authorities. A striking instance of cases where officers guilty of slack supervision are treated unduly leniently will be found in paragraph 143 (Z-2) of the report *vide* paragraph 29 of this letter.

(c) The Public Accounts Committee will doubtless bear in mind the remarks made by the Accountant General in the last sentence of sub-paragraph 3 when dealing with the cases of financial irregularities.

7. *Paragraph 2 of the report.*—Attention is invited to the last portion of this paragraph. The Public Accounts Committee may wish to express the hope that steps will be taken to see that the controlling officers comply with the requirements of the rules framed by the local Government for the control over expenditure.

8. *Paragraph 3.*—It must be remembered that at present the official account is that maintained by the account office and that account must be accepted unless and until it is shown to be wrong.

9. *Paragraph 5.*—The actual expenditure was on the whole only about 5·3 per cent. below the appropriation which was better than the results in some of the other provinces.

10. *Paragraph 8.*—(a) 22—*General Administration.*—The excess is stated to be due to larger adjustments after the close of the year than had been anticipated (*vide* note C voted on page 124). The Public Accounts Committee may wish to emphasise that there can be no adequate financial control unless careful watch is maintained over commitments and liabilities by the controlling officer.

(b) 26—*Police*.—The Public Accounts Committee will doubtless investigate the reason for the excess expenditure over the amount provided for under the detailed head in question.

11. *Paragraph 9*.—The special attention of the Public Accounts Committee is drawn to the excesses referred to in this paragraph which require the vote of the Council.

12. *Paragraph 13*.—It has since been recognised by the Government of India that once a demand has been voted by a Legislative Council there is no provision either in the Government of India Act or in rules made thereunder which permits the grant being reduced on the motion either of the Government or of a non-official Member. On the other hand a local Government is entitled to sanction supplementary funds for any non-voted service and such sanction is fully justified if Government is assured that there will be a saving under a specified voted grant. It is also entitled to issue executive orders to the authority controlling any specified voted grant to restrict the expenditure within a specified figure. Thus it will be seen that the Finance Department is not competent to sanction a formal re-appropriation from a voted to a non-voted service as the reduction by any authority of a grant voted by the Council is unconstitutional as stated above.

I may add that a complete list of a re-appropriation seems quite unnecessary both in paragraphs 13 and 14.

13. *Paragraph 19*.—The Public Accounts Committee may wish to ascertain from the local Government the reason for the delay of over two years in dealing with the case mentioned in paragraph 78.

The attention of the Committee is also invited to the delay of over a year on the part of the local Government in passing orders on the cases referred to in paragraphs 74, 76, 79, 81, 89, 118, 120 and 124. The attention of the Committee is invited to the comments of its predecessor on this question as set out in paragraph 143 (Z-1) on pages 95 and 96. It may desire to reiterate and endorse those comments.

14. *Paragraph 20*.—(a) The Public Accounts Committee may wish to ascertain whether periodical inspections of accounts have now been arranged.

(b) I would like to mention in this connection for the information of the Public Accounts Committee that paragraph 20 as well as the following paragraphs of the report contain comments already made by me in my letter to the local Government forwarding the Executive Report for 1925-26:—

Paragraphs 21, 28, 79 (last sub-paragraph), 86 (1st sentence of last sub-paragraph), 89 (last sub-paragraph), 111 (last sub-paragraph) and 119 (last sub-paragraph).

15. *Paragraphs 21 and 22*.—I can not emphasise too strongly the importance of the local audit of the accounts of institutions which spend large sums locally.

16. *Paragraph 24*.—(a) It is a very serious state of affairs if two-fifths of the contingent expenditure in March has to be placed under objection. I suggest that the Public Accounts Committee ascertain from the Accountant General the main reasons which obliged him to object to so large a proportion of this expenditure.

(b) I shall watch with interest the result of the action taken by the local Government in pursuance of the recommendation of the Public Accounts Committee *vide* paragraph 143 (Z-17).

17. *Paragraph 25*.—In forwarding the Executive Report to the local Government I have made the following comment on this matter:—

“It is unsatisfactory to note the increase in the amount of objections outstanding on the 31st July as compared with the preceding year. It is hoped that greater promptitude will be observed in future in the submission of detailed countersigned bills of the Jail Department and of details and sub-vouchers pertaining to the Settlement Department, Government Estates, and Water-supply schemes.”

18. *Paragraph 29.*—It is satisfactory to note the improvement. I may state however that in one province the percentage under “Ordinary repairs” is *nil* while in another province the percentage under “Original works” is 1·84 only. In both these provinces the outlay on Irrigation, etc., works was far larger than in Bengal.

19. *Paragraphs 45 and 46.*—I invite the attention of the Public Accounts Committee to the remarks of the Accountant General—

(i) in sub-paragraphs (iv), (v) and (viii) of paragraph 45 and

(ii) in the last sub-paragraph of paragraph 46 regarding Class II-Buildings.

20. *Paragraphs 73, 105 and 111.*—*Drawal of money in advance of requirements.*—(a) In forwarding the Executive Report to the local Government I made the following comment on this class of irregularity:—

“This class of irregularity, which appears to have been absent from Bengal during 1923-24 and 1924-25, has again cropped up. As the drawal of money not required for immediate disbursement not only involves risk of embezzlement and goes a long way to nullify the control over expenditure but falsifies the accounts and encourages extravagant outlay and lavish budgetting, it seems desirable to take such steps as will eradicate the evil.”

(b) Special attention of the Public Accounts Committee is invited to the comment of the Accountant General in sub-paragraph 2 of paragraph 111. It is hoped that the Public Accounts Committee will endorse this comment.

21. *Paragraph 74.*—The attention of the Public Accounts Committee is invited to sub-paragraph 2 of this paragraph.

22. *Paragraph 77.*—The Public Accounts Committee may wish to ascertain the nature of the arrangements which have been made to meet such cases in future.

23. *Paragraph 89.*—The attention of the Public Accounts Committee is invited to the remarks in the last sub-paragraph of this paragraph.

24. *Paragraph 90.*—The lack of supervision and neglect of duty seems to have been habitual on the part of responsible officers and the Public Accounts Committee will doubtless consider whether the action taken by the local Government is adequate.

25. *Paragraph 118.*—It is satisfactory to note that a compulsory departmental examination for all Provincial and Subordinate officers of the Agricultural Department has been introduced in Bengal with a view to removing ignorance of account rules on the part of the supervising staff and it is hoped that conditions in respect of breaches of financial rules by the Agricultural Department will rapidly improve.

26. *Paragraph 119.*—It is hoped that the Public Accounts Committee will endorse the comment in the last sub-paragraph.

27. *Paragraph 124.*—This is a very serious case of irregularities leading to considerable loss to Government. I invite the special attention of the Public Accounts Committee to this case.

28. *Paragraph 139.*—Effect can also be given to the recommendation by establishing a convention in the Legislative Council that the members of the Public Accounts Committee shall be elected by the Council in the manner suggested.

29. *Paragraph 143 (Z-2).*—Special attention of the Public Accounts Committee is invited to this paragraph. The Committee will doubtless enquire why effect could not be given to the orders of Government regarding the retirement of the officer in accordance with the Committee's recommendation. It also seems most unsatisfactory that an officer responsible for a series of irregularities should have given a more responsible post instead of a suitable punishment. The Committee will doubtless enquire

into this, specially in view of the further irregularities of which he has been guilty, as mentioned in paragraph 120 of the report.

30. *Paragraph 143 (Z-10).*—The Public Accounts Committee may desire to investigate the reason for the delay in disposing of the case.

31. *Paragraph 144.*—I endorse the remarks of the Accountant General made in this paragraph and hope that the Committee will keep them in view when dealing with the individual appropriation accounts. It is for consideration whether reappropriations should not ordinarily be postponed till such time as a more reliable forecast is possible, as the information available in the earlier part of the year is not always a safe guide for making re-appropriations.

32. *Page 106—Notes A. (voted) and B. 1; pages 111 and 112—Notes A and E.; page 125—Notes H (voted) and J. 1 (voted); page 143—Note J. (voted); page 146—Note O.-1 (voted); page 149—Note C.-1 and page 165—Note A.-2 and A.-3.*—It is presumed that in future provision will be asked for under the head under which the expenditure will appear in the accounts.

33. *Page 115—Note B.-1.*—The Public Accounts Committee will doubtless enquire why the bulk of the provision could not be utilised and whether this was due to defective budgeting.

34. *Page 118—head B. B.-1; page 135—head C; page 142—head F.-1; page 146—head O.-2; page 149—head B.-2; page 157—head C.-2; page 159—head A.-2 and page 162—head A.*—The supplementary grants in these cases were unnecessary unless they were required to meet the cost of new services.

35. *Page 124—Note E.*—The expenditure under this head does not seem to be well controlled seeing that Rs. 43,490 out of a total re-appropriation of Rs. 49,202, remained unutilised, the Public Accounts Committee may like to enquire into the control, and the watch over the progress of expenditure.

36. *Page 125—Note J.-1—voted.*—The amount of Rs. 66,363 added by re-appropriation was greatly in excess of the amount actually required as it resulted in a saving of no less than Rs. 47,672.

36-A. *Page 126—Note L.*—The increase in the rate of percentage charges is explained in paragraph 70 of the Report.

37. *Page 136—Note F.—non-voted.*—The comment in paragraph 35 above applies here also.

38. *Page 137—Note C.—voted.*—The Committee may like to enquire into the inaccurate estimates of the recoveries of freight charges by the Agent for Government Consignments and of "Supplies and Services".

39. *Page 141—Note E.-2—voted.*—If the budget estimate for "Pay of officers" had been accurately prepared, it is difficult to understand how the actuals could have exceeded that estimate by nearly 45.

40. *Page 142—Note H.-1—voted.*—I understand it is difficult to estimate accurately what grants will have to be paid during any year to particular schools but in this case the expenditure was over 21 per cent. in excess of the estimate and I suggest the Public Accounts Committee enquire whether an estimate of grants-in-aid ought to be as much out as this.

41. *Page 168—Note N.-2.*—The Public Accounts Committee may wish to enquire into the causes of the loss of stock which led mainly to this excess

42. *Page 176—Grant 22—Superannuation Allowances and Pensions.*—The Public Accounts Committee will note that the expenditure was nearly 14 per cent. in excess of the original grant and that a supplementary grant of 6.31 was inadequate. It was no doubt impossible to estimate with any accuracy the extent to which advantage would be taken of the general permission to commute parts of pensions. As experience is gained the estimates will no doubt become closer.

43. *Page 191—Grant No. 26—Home Charges.*—The total savings both in non-voted and voted sections are very large and the Public Accounts

Committee may like to enquire whether more reliable estimating is not possible in regard to the expenditure in England. If the figures for 2 or 3 years past show similar results it ought to be possible to make a lump cut which in the circumstances might be left undistributed at least during the early part of the year.

44. I would draw the attention of the Public Accounts Committee to paragraphs 77, 83, 84, 85, 87, 92, 98, 99, 100, 108, 109, 110, 130 and 131 of the report which seem to indicate defective control over expenditure. In this connection I would also invite attention to my comments in paragraphs 10, 35, 36 and 37 of this letter.

45. Attention of the Public Accounts Committee is also invited to paragraphs 91, 101, 102, 114, 116, 121, 125, 126, 127, 128 and 129 of the report which seem to indicate defective or overbudgeting. The tendency to overestimate appears to be more marked in the Jail, Public Health, Agriculture and Public Works Departments in which the percentages of savings to final appropriations are very high as indicated in the table given below:—

| Grant or Head. | Final appropriation. | Expenditure. | Saving. | Percentage of savings to appropriation. |
|--|----------------------|--------------|---------|---|
| 1 | 2 | 3 | 4 | 5 |
| 10. Jails and Convict Settlements— | | | | |
| Voted | 33,17 | 29,75 | 3,42 | 10·3 |
| Non-Voted | 1,67 | 1,30 | 37 | 22·1 |
| Total | 34,84 | 31,05 | 3,79 | 10·8 |
| 16. Public Health— | | | | |
| Voted | 25,60 | 22,67 | 2,93 | 11·4 |
| Non-Voted | 1,34 | 1,18 | 16 | 11·9 |
| Total | 26,94 | 23,85 | 3,09 | 11·4 |
| 17. Agriculture— | | | | |
| Voted | 19,17 | 17,51 | 1,63 | 8·5 |
| Non-Voted | 2,22 | 1,95 | 27 | 12·1 |
| Total | 21,39 | 19,49 | 1,90 | 8·8 |
| Public Works Department— | | | | |
| <i>(a) Irrigation—</i> | | | | |
| Voted (Grants 7, 7A and 27). | 30,43 | 21,72 | 8,71 | 28·6 |
| Non-Voted (Grants 7, 7A and 27 and Head 14— Interest). | 22,50 | 22,48 | 2 | ·08 |
| Total | 52,93 | 44,20 | 8,73 | 16·4 |
| <i>(b) Civil Works—</i> | | | | |
| Voted (Grants 20 and 20A). | 1,14,44 | 1,00,75 | 13,69 | 11·9 |
| Non-Voted (Vide grant 20). | 20,82 | 17,15 | 3,67 | 17·6 |
| Total | 1,35,26 | 1,17,90 | 17,36 | 12·8 |

In this connection I would also invite attention to my comments in paragraph 43 of this letter.

46. From the notes under the appropriation accounts it appears that savings frequently occur under the head "Pay of Establishment" and "Pay of Officers". In paragraph 13 of its report on the accounts of 1924-25

the Central Public Accounts Committee have made the following comments on the tendency to over-estimate the provision made for establishment :—

“We have devoted careful consideration to the evidences of a tendency to over-estimate expenditure in the preparation of Demands for Grants which are afforded by numerous instances brought to notice in the Appropriation Accounts now under review. It appears to us that this tendency to over-estimate is particularly noticeable (a) in the provision made for establishments and (b) in the sums entered under heads relating to expenditure on works whether chargeable to capital or to revenue. It seems to have been the regular practice for the provision under such heads as pay of establishments to be calculated on the basis of existing cadres with little reference, if any, to the probability of savings due to casualties, leave, seconding to other duties, and so on. The result is that at the end of the year comparatively large underspendings are brought to light for which allowance might well have been made in the original estimates. The existence of such margins facilitates re-appropriations to purposes not contemplated at the time when the budget was framed, for which no specific authorisation has been obtained from the Assembly, and even if, as we are assured is the case and as the comparatively large realised surpluses on recent budgets tend to prove, the Finance Department has been increasingly strict in recent years in preventing such re-appropriations, we are nevertheless of opinion that steps should be taken to ensure that the provision under such heads as pay of establishment should be based not only on existing cadres, but also on the experience of previous years. and a suitable lump sum deduction made for probable underspendings under these particular heads. The Finance Department have already introduced with advantageous results in the past two years the system of making lump sum cuts in the demand for grants as a whole to allow for probable underspendings, and we expect that the effect will be to reduce the extent of underspending disclosed in the estimates of 1925-26 and 1926-27. We are inclined to the opinion, however, that this system should be applied more holdly than has yet been the case, and that further improvement could be obtained if careful statistics were kept of the proportion between actual expenditure and estimate based on the existing cadres under establishment heads.”

The budget estimate should be as close as possible and the Public Accounts Committee may desire to suggest that lump sum cuts should be made under the head “Pay of Establishment” when the demand under such a head is large.

47. The attention of the Public Accounts Committee is invited to paragraph 4 of the Home Auditor’s report on the accounts of the High Commissioner for India for 1925-26. For the reasons mentioned in paragraph 12 above, the transfer of £3,500 from the Voted to the Non-Voted portion of the grant for “Police” was not in order. The duplication of provision under certain heads is also brought to notice.

Enclosure VIII.

FROM SIR FREDERIC GAUNTLETT, K.B.E., C.I.E., I.C.S., AUDITOR GENERAL IN INDIA, TO THE SECRETARY TO THE GOVERNMENT OF UNITED PROVINCES, FINANCE DEPARTMENT, No. 870-ADMN./75-27, DATED THE 20TH JUNE 1927.

SUBJECT:—*Appropriation Accounts of the Government of United Provinces for the year 1925-26.*

With reference to Rule 15(a) of Auditor General’s rules framed under Section 96D(1) of the Government of India Act, I have the honour to transmit herewith two copies of the Appropriation Accounts of the Government

of United Provinces for the year 1925-26, together with the report of the Director of Audit, United Provinces thereon for submission to the Public Accounts Committee and for necessary action by the Government of United Provinces.

2. Two copies of the accounts of the receipts and disbursements of the Secretary of State and the High Commissioner for India on account of the Government of United Provinces for the year 1925-26, together with two copies of the appropriation accounts, and the reports thereon prepared by the Auditor of the (India) Home Accounts, are also forwarded herewith.

3. I offer the following comments.

4. *Preface—first sub-paragraph of paragraph 2 and also paragraph 2 on page 99.*—I have already communicated my views on this 'Manual' *vide* correspondence ending with my demi-official letter No. 415-Admn./105-27, dated the 28th March 1927 to Mr. Blunt, the Financial Secretary to the Government of the United Provinces.

5. *Preface—second sub-paragraph of paragraph 2.*—The Audit and Appropriation Accounts are public documents of considerable importance and the Principal Auditors on whom the duty of the preparation of these accounts lies have special instructions to devote their personal attention to them. In order that the details included in the appropriation accounts may be as accurate as possible, it is most desirable that the officers responsible for furnishing the information for the Report should also devote their personal attention to the matter. The Public Accounts Committee will doubtless deem it desirable to suggest that the local Government issue special instructions to the Pay and Accounts Officers so that they may realise their responsibility in this respect.

6. *Page 1—paragraph 1.*—The word 'high' in the penultimate line of the second sub-paragraph should have been omitted. The paragraph as drafted expresses the personal opinion of the Director of Audit that a high standard has been attained. I doubt whether he intended to express such an opinion.

7. *Page 1—paragraph 2.*—The special attention of the Public Accounts Committee is invited to the excesses referred to in this paragraph, which require the vote of the Council. The Committee may like to express the hope that endeavour will be made to reduce the number of final excesses over grants, which is larger in the United Provinces than in other provinces.

8. *Page 5—paragraph 11—line 5.*—Grant '26' should be substituted for Grant '27'.

9. *Page 6—paragraph 13.*—I suggest that the Public Accounts Committee should hold the Controlling officer alone responsible, and leave to the local Government the determination of the relations between him and the Pay and Accounts Officer.

10. *Page 10—paragraph 16.*—I do not agree with the Director of Audit that reductions made by the Council in order to raise questions of policy or based on past actuals are not cuts to be respected by the Executive. The Rules of Business, which are statutory rules, impose upon the Public Accounts Committee the duty of bringing to the notice of the Council any excess over an item which has been cut by the Council quite regardless of the reasons for the cut *vide* Rule 34(2)(ii) as set out on page 98.

The Public Accounts Committee will no doubt ascertain from the Director of Audit whether there are any excesses which require to be brought to the notice of the Council under this ruling.

11. *Pages 12 to 17—paragraphs 20 to 22.*—I have had demi-official correspondence with the Financial Secretary to the Government of United Provinces—see my demi-official letter No. 395-Admn./89-27, dated the 29th March 1927 regarding control over grants-in-aid. If the local Government desire to place this letter before the Public Accounts Committee I have no objection.

12. *Page 23—paragraph 31—explanation under G. and I.*—It is important that budget provision should be made under those heads under which the expenditure will be finally recorded in the accounts. It is suggested

that this principle should be applied to overseas pay, now that past actuals will give some idea of the sums to be provided under each grant to meet such expenditure.

13. *Page 27—paragraph 37.*—The attention of the local Government is invited to this paragraph. It is hoped that a correct calculation was made for the proper adjustment of the charges in question in the accounts for 1926-27.

14. *Page 28—paragraph 38.*—If the accounting rules, to which the Director of Audit refers in the last four lines, are those which govern the distribution of charges on Establishment and Tools and Plant, they can be modified by the local Government.

15. *Pages 36 and 37—paragraphs 43 and 44.*—The attention of the Public Accounts Committee is invited to these paragraphs.

16. *Page 38—paragraph 47.*—I refrain from comments on this paragraph as the information afforded is insufficient to enable me to express an opinion on the accuracy of the view held by Director of Audit.

17. *Pages 38 and 39—paragraph 48.*—The attention of the Public Accounts Committee is invited to this paragraph.

18. *Page 55—paragraph 22.*—The Public Accounts Committee may wish to ascertain what progress has been made in the reclassification of loans suggested in the last sub-paragraph of this paragraph.

19. *Page 56—paragraph 24.*—I invite the attention of the Public Accounts Committee to this paragraph and endorse the view expressed by the Director of Audit.

20. *Page 56—paragraph 26.*—I trust the Public Accounts Committee will consider carefully the very important suggestion that arrangements should be made for the amortisation of all unproductive debt even though it may form part of the pre-Reform irrigation debt.

21. *Pages 58 and 59—paragraphs 31 and 32.*—It is often said that the remission of contributions go mainly to Reserved. From the table given below it would appear that as compared with the year 1921-22 there has been an increase of expenditure met from revenue in 1925-26 under Transferred while there has been a decrease under Reserved. If the figure for provincial contributions are excluded from columns (1) and (2), *viz.*, 2,40,00 and 1,83,83 respectively, column (3) of the table would still exhibit a decrease. This seems to indicate that funds made available for expenditure by the remission of contributions were utilised to a considerable extent in meeting expenditure under Transferred—

Expenditure excluding that not charged to Revenue.

| Reserved. | | | Transferred. | | | Contributions. | | |
|---------------------------|----------|----------|--------------|----------|----------|----------------|----------|-----------|
| 1921-22. | 1925-26. | Decrease | 1921-22. | 1925-26. | Increase | 1921-22. | 1925-26. | Decrease. |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 11,12,56 | 9,71,11 | —1,41,45 | 3,51,85 | 3,83,29 | + 31,44 | 2,40,00 | 1,83,83 | 56,17 |
| <i>Less Contribution.</i> | | | | | | | | |
| —2,40,00 | —1,83,83 | .. | .. | .. | .. | .. | .. | .. |
| 8,72,56 | 7,87,28 | —85,28 | .. | .. | .. | .. | .. | .. |

22. *Page 61—Paragraph 41.*—I endorse the view expressed by the Director of Audit.

Prudent finance would suggest that the additional funds made available for expenditure by the remission of the contribution should be utilised—

- (1) in meeting all existing demands for the amortisation of debt,
- (2) in setting aside funds to meet all inevitable demands for the amortisation of debt still to be incurred,
- (3) in arranging for the amortisation of pre-Reform unproductive debt.

As it appears from the report that the normal growth of expenditure is greater than the normal growth of income it is also suggested that the balance should not be mainly utilised in meeting permanent commitments.

23. *Page 65—paragraph 1—Miscellaneous (1). Page 68—paragraph 2 (14).*—The Auditor General reserves the right to mention in the report any case which may not involve an actual loss of Rs. 1,000 or over, but, in his opinion, discloses serious financial irregularities or lack of supervision by responsible officers.

24. *Page 65—paragraph 1—Miscellaneous (4) and page 67 paragraph 2 (5) and (6).*—The treatment of recoveries in the accounts is intimately connected with the question of gross and net grants. A memorandum was prepared by me on the question of the treatment of gross and net grants and the accounting problems involved therein which was discussed at the conference of the Financial Representatives held in Delhi in November 1926. It was agreed that the rules proposed in paragraph 12 of my memorandum should be tentatively adopted in all provinces. As, however, the promulgation of the rules is likely to necessitate considerable changes in the forms of Provincial demands for grants and as it is essentially desirable that the form of the Budget should conform, as far as possible, to the form of the final accounts, I have called for the considered opinion of the local Government on the subject before taking final action *vide* my letter No. 613-Ac./507-Audit-23, dated the 8th March 1927. The views of the local Governments are awaited.

25. *Page 70—paragraph 2.*—The special attention of the Public Accounts Committee is invited to this paragraph. Evidence of inadequate control over the expenditure under "Civil and Sessions Courts" is to be found in the explanations on page 119 *vide* notes F4 and F6.

26. *Page 71—paragraph 6.*—The attention of the Public Accounts Committee is invited to this paragraph.

27. *Pages 71 to 76—paragraphs 9 to 13.*—The attention of the Public Accounts Committee is invited to these paragraphs. The Public Accounts Committee may like to consider whether some disciplinary action is not desirable in the case mentioned in paragraph 13.

28. *Page 78—paragraph 22.*—After making due allowance for savings amounting to 48,06 due to the transfer to Revenue of expenditure on grants-in-aid there is still a saving of 7,23. This is in such marked contrast to the excess under Grant 5—*vide* my remarks on page 146 in paragraph 47 of this letter—that the Public Accounts Committee may profitably attempt to ascertain the reasons for the contrasting results.

29. *Pages 78 and 79—paragraph 24.*—The Public Accounts Committee might desire to ascertain the circumstances in which the purchase of the private press was decided on, seeing that in the result, Government sustained a very considerable loss. It seems a little difficult to understand why Government should bear the whole of the loss caused by a change of mind on the part of the University authorities. This is not the way to inculcate financial responsibility.

30. *Page 79—paragraph 25.*—The Public Accounts Committee may like to consider the point raised in this paragraph.

31. *Page 83—paragraph 34.*—The special attention of the Public Accounts Committee is invited to this paragraph.

32. *Page 83—paragraph 35.*—The Director of Audit appears in this paragraph to challenge the actual classification in the accounts which are now maintained by the Pay and Accounts Officers on behalf of the local Government. If that be so, his proper course is to challenge the classification adopted and to refer the dispute to me for decision under Rule 20 of Auditor General's Rules. I have instructed him to do so.

33. *Pages 84 and 85—paragraph 38.*—In view of the serious irregularities brought to notice the Public Accounts Committee may desire to consider whether the case was adequately met by a mere warning to the Principal of the technical school.

34. *Page 88—paragraph 44.*—The special attention of the Public Accounts Committee is invited to this paragraph.

35. *Page 89—paragraph 46.*—My comments on paragraph 35 of the Report—*vide* paragraph 32 of this letter—apply here also.

36. *Pages 90 to 93—paragraph 48.*—While I should not have been as dogmatic as the Director of Audit if I had drafted this paragraph, there is ample material to show the desirability of a close scrutiny by the Public Accounts Committee of this case to investigate whether the investments made in these two concerns will not eventually result in any loss of public money.

37. *Page 94—paragraph 49—second sub-paragraph.*—The Divisional Forest Officer acted contrary to rule (iv) of Appendix A to the Treasury Orders and the Committee may desire that serious notice should be taken of his action.

38. *Page 99—paragraph 3.*—Pending the necessary amendment in the United Provinces Legislative Rules effect can be given to the proposal to extend the term of the Committee, by establishing a convention in the Legislative Council that the members of the Public Accounts Committee shall be elected by the Council for the life time of this body.

39. *Page 100—Paragraph 6.*—I desire to emphasise the importance of linking up the work of one Public Accounts Committee with that of its predecessors. If the personnel remained substantially the same there would be obvious advantages in a Public Accounts Committee undertaking this duty before proceeding to consider the report of the year under consideration. But if the personnel is almost entirely changed there may be advantages in undertaking this duty after it has considered that report.

Government has passed orders which it regards as final on the following paragraphs :—

Audit Report—1923-24—

Section I.—paragraphs 7, 12, 13, 19, 20 (5), 31 and 32. Section VII.

The matters referred to in the following paragraphs are still under consideration :—

Audit Report—1923-24—

Section I paragraph 10 and Section VIII paragraph 2.

Audit Report—1924-25—

Paragraphs 3, 6, 10, 15, 20 and 35 to 37.

The Director of Audit should have stated the present position in respect of each of these matters and it is suggested that the Public Accounts Committee should now ascertain, and record in its own report, the position so that these matters may not be lost sight of.

40. *Pages 100 to 102.*—The attention of the Public Accounts Committee is invited to the summary given herein of the views of the local Government relating to paragraphs 7, 12, 19, 20 (5), 31 and 32 of the Audit Report for 1923-24. It is for the Public Accounts Committee to decide whether it is prepared to accept the view of the local Government that it will not reopen any question of disciplinary action at the request of the Public Accounts Committee unless fresh facts come to light. If this view is accepted it is useless for the Auditor General or the Public Accounts Committee to express any comment on the adequacy of disciplinary action. I call attention to this matter as it raises an important issue as to the powers of the Public Accounts Committee. Those powers have been obtained in England by the steady pressure of the Legislature on the Executive.

41. *Page 117—notes D1 and E1, and D2 and E2.*—The total salaries provided in the budget were 1,64. The actual salaries paid amounted to 1,83. It is unusual to find such a large excess under "Salaries", and the Public Accounts Committee may wish to suggest that more careful estimates should be prepared in future.

42. *Page 119.*—Attention is invited to my remarks in paragraph 25 of this letter.

43. *Page 129—note P4.*—The controlling officer should have known what Committees were working so that he ought to have been able to foresee this request. A careful watch over liabilities is one of the most important financial duties of a controlling officer.

44. *Page 131—note S6.*—It is a common financial rule that all charges incurred must be paid and drawn at once, and in no circumstances may they be allowed to stand over to be paid from the grant of another year (*c. f.* Article 87 of the Civil Account Code Volume I). The controlling officer not only committed an irregularity by the violation of this general financial principle, but also seems to have omitted to take steps to provide for this charge in the budget of the year under review. The matter is therefore brought to the notice of the Public Accounts Committee.

45. *Page 136—head H.*—It is remarkable that under each of the five heads there is an excess although there were supplementary appropriations under four of the five. The Public Accounts Committee may wish to express the opinion that the watch over the progress of expenditure cannot have been very satisfactory.

The excesses will have to be reported to the Council as the Council made a lump deduction *vide* my comment in paragraph 10 of this letter on page 10—paragraph 16 of the Report.

46. *Page 141—note Q.*—The attention of the Public Accounts Committee is invited to the remarks made by the Director of Audit. The supplementary appropriation under this head seems to have been unnecessary.

47. *Page 146.*—One is so accustomed to find heavy savings under grants for Civil Works that excesses of 91 under non-voted and of 4,02 under voted representing excesses of 31 and 8 per cent. respectively, even after supplementary grants amounting to 3,54, are disconcerting. The Public Accounts Committee may well investigate the reasons. Now that petty works have been handed over to Departments are there fewer opportunities for savings?

48. *Page 151—notes III and IV.*—The incurring of expenditure in the absence of appropriation is an obvious financial irregularity.

49. *Pages 155 and 239—Stock accounts.*—In the case of unserviceable stock it is desirable, to avoid further deterioration, that prompt action should be taken for the disposal of those articles which are still capable of being disposed of at a reduced value and that the actual loss should be written off the books.

In regard to serviceable stock in excess of the requirements of the following 12 months it is desirable that those items which are liable to quick deterioration (*e.g.*, cement, paint, etc.) should be disposed of promptly in order to save probable losses.

The Public Accounts Committee may desire to investigate what action has been taken in these directions.

50. *Page 165—note at bottom of the page.*—Expenditure on “Repairs” cannot appropriately be recorded under a head falling under “Outlay not charged to Revenue” as expenditure on repairs to buildings and roads from borrowed funds is not permissible under the local Government (Borrowing) Rules. Unless therefore the local Government have any special reasons to urge to the contrary, the expenditure against items 5 to 10 on page 164 of the report should be written back in the revenue head “41 Civil Works—Repairs” in the current year’s accounts after provision is duly made under that head.

51. *Page 172—Grant No. 8.*—The budgeting in the past under this grant has been so inaccurate in some provinces that the accuracy which has now been attained is very creditable.

52. *Page 175—note A1 and A2.*—The Public Accounts Committee may wish to investigate whether when the budget was prepared Government

should not have been able to foresee that more voted officers would be appointed in leave and deputation vacancies and that eight posts in the United Provinces Medical Service would remain vacant. Whether the latter state of affairs can be viewed with equanimity is perhaps a matter more for the Legislative Council than for the Public Accounts Committee.

53. *Page 175—note B4.*—My comments on page 83—paragraph 35 and on page 89—paragraph 46 (*vide* paragraphs 32 and 35 of this letter) are also applicable here.

54. *Page 177—notes D1 and D2.*—The explanations are quite inadequate. It appears, however, that Rs. 2,800 was recorded in the accounts under D2 which should have been recorded under D1. If so the local Government may desire to ascertain why the adjustment could not be made in the accounts of the year under report so as to represent the correct charges under proper heads.

55. *Page 181—note A5.*—The local Government may desire to ascertain why the adjustment could not be made in the accounts of the year under report so as to represent the correct charges under proper heads.

56. *Page 183—note C1.*—The Public Accounts Committee may wish to ascertain from the Director of Audit what he means by the phrase "in the Indian section." If he meant "under voted" it would have been simpler and more accurate to have said so.

57. *Page 183—note C14.*—The attention of the Public Accounts Committee is invited to this. The explanation of the Director of Audit shows that this is an instance of double payment through rush of expenditure in March. The explanation would have been clearer if the Director of Audit had stated that once the Pay and Accounts Officer issues a cheque it is recorded as a final payment. Thus there was a double payment on account of one liability due to the desire of the Principal to ensure payment within the year.

58. *Page 188—head H.*—More than half the provision could not be utilised for the purpose for which it was originally intended and the Public Accounts Committee may desire to consider whether more accurate budgeting is not possible under this sub-head.

59. *Pages 192 and 193.*—As to the legal and constitutional position in regard to the formation of a Civil Contingencies Fund and subsequent re-appropriation from the reserve in that Fund to the respective heads in other grants, a reference is invited to paragraph 7 of the Resolution No. D-1163-A, dated the 5th May 1927 issued by the Government of India in the Finance Department.

60. *Page 201—note B.*—The supplementary grant seems to have been excessive inasmuch as almost half the amount of that grant could not be utilised. The Public Accounts Committee may like to enquire whether this was due to defective estimating.

61. *Page 203—note A3.*—The non-provision for annual increments in the budget indicates a defect in estimating.

62. *Page 203—note A5.*—The control over expenditure seems to have been defective as the explanation suggests that the reason for the excesses under this head could have been anticipated and a supplementary grant obtained in time to cover the excess.

63. *Page 205—note B2.*—The figures seem to indicate that the supplementary appropriation was unnecessary unless it was for a new service.

64. *Pages 208 and 209.*—I have asked the Director of Audit for a further explanation of these summaries. The Public Accounts Committee may also desire to ask the Director of Audit to supply this information to them.

65. *Pages 215 and 217—notes A, A2, B1, B5, B6, C5 and H2.*—The estimates under these heads seem to have been excessive and the Public Accounts Committee may desire to investigate the method of budgeting so as to secure an improvement.

66. *Page 225—note D.*—The explanation seems to be carelessly worded. I presume the Director of Audit intended to say that "Provision need not have been made for the boiler examination if that examination had been abolished."

67. *Page 230.*—The saving under Grant 23 is 2,74 or about 7.6 per cent. It looks as though this is a head under which a lump sum cut might be made with advantage in the budget.

68. *Page 238.*—The net saving under Grant 25 is 4,65 or 9.5 per cent. It looks as though this also is a head under which a lump sum cut might be made with advantage in the budget.

69. *Page 250.*—The net saving under Grant 27 is 28,76 or 20 per cent. It looks as though this again is a head under which a lump sum cut might be made with advantage.

70. From Part II of the appropriation accounts it appears that in several cases grants already sanctioned by the Legislature have been reduced by the vote of the Council. It has since been recognised by the Government of India that once a demand has been voted by a Legislative Council there is no provision either in the Government of India Act or in rules made thereunder which permits of the grant being reduced on the motion either of the Government or of a non-official Member. Such reduction of grant is therefore to be regarded as unconstitutional.

It is also noticed that in many cases reappropriations have been made from voted grants to non-voted heads *vide* paragraphs 3, 4, 10 and 17 of the Report. Such reappropriations have the effect of reducing the grants from which the transfers are made and, for the reasons stated above, is therefore also to be regarded as *ultra vires* of the Statutory rules.

The local Government is however entitled to issue executive orders to the authority controlling any specified grant to restrict the expenditure within a specified figure. On the other hand it is also entitled to sanction supplementary funds for any non-voted service against earmarked savings under specified voted grants. When therefore a definite lapse is anticipated in the provision made under a voted grant the proper course is to take the surrendered amount into a reserve within the grant at the disposal of the local Government and to obtain the requisite sanction for any additional allotment required to meet excess expenditure elsewhere, one argument in support of this request for additional allotment being that money is available in the reserve.

71. This report is both interesting and important because it exhibits the results of the working of the experiment in the separation of audit and accounts during the first year. Having regard to the inevitable dislocation of work caused at the outset by such a change and to the inexperience of a large number of the accounting staff, I am very impressed by the success of the experiment in the improvement of financial control and in the closer approximation of expenditure to budget provision.

It is inevitable, where such mass of detail has to be dealt with, that there should still be some defects and it is in no carping spirit that I call attention to the following :

(a) A few instances where slack control is presumed will be found in paragraph 2 on page 70 of the Report, paragraph 62 of this letter and clause (c) below.

(b) Taking all the grants and appropriations together and omitting some extraordinary items pointed out by the Director of Audit in paragraphs 2 and 11 on pages 2 and 5 of the Report, the budgeting appears to have been satisfactory. Improvement in this direction seems, however, desirable in many individual quarters. A few instances of defective or overbudgeting are given below :

Page 79—paragraph 27, page 88—paragraph 44, pages 227 and 247—notes H of the Report and paragraphs 60 and 61 of this letter.

- (c) In the following cases supplementary grants appear to have been unnecessary. Unless they were required to meet the expenditure on 'new services' they indicate defective control or inadequate knowledge of the progress of expenditure.

Page 126—head J 6.

Page 204—head B 2.

Page 214—head B 5.

Page 228—head B 2.

Page 230—heads B 8 and 9 and C 5.

- (d) In the following cases provision was made in the budget under heads to which the expenditure relating thereto was not finally debitable :—

Page 127—note J 6.

„ 139— „ L 4.

„ 175—notes A3, B1 and 2.

„ 203—note A 9.

„ 213— „ A 2.

„ 217— „ D 5.

„ 229— „ A 4 and 5.

„ 231— „ C 5 and 6.

„ 235— „ A.

It is presumed that, in future, provision will be made in the budget under the head to which the expenditure will appear in the accounts.

72. I consider that the size of the report could be reduced to a certain extent. For instance, the long section relating to 'grants-in-aid' on pages 12 to 17 could have been compressed with advantage. Also I do not think it was necessary to give the complete extract from the Administrative Accounts of the Irrigation Department which is reproduced on pages 32 to 36, nor to reproduce in full on pages 62 to 69 the conclusions of the Public Accounts Committee and the Government of the United Provinces on the revision of the form of the Appropriation Accounts.

The Public Accounts Committee may like to express an opinion whether this view is accepted.

Enclosure IX.

FROM SIR FREDERIC GAUNTLETT, K.B.E., C.I.E., I.C.S., AUDITOR GENERAL IN INDIA, TO THE SECRETARY TO THE GOVERNMENT OF PUNJAB, FINANCE DEPARTMENT, No. 826-Admn./76-27, DATED THE 10TH JUNE 1927.

SUBJECT :—*Audit and Appropriation Accounts of the Government of the Punjab for the year 1925-26*

With reference to Rule 15(a) of the Auditor General's rules framed under Section 96 D(1) of the Government of India Act, I have the honour to transmit herewith two copies of the Audit and Appropriation Accounts of the Government of the Punjab for the year 1925-26, prepared by the Accountant General, Punjab for submission to the Public Accounts Committee and for necessary action by the Government of the Punjab. I also transmit herewith two copies of the Appendix to the Appropriation Report on the accounts of the Government of the Punjab for the year 1925-26, prepared by the Accountant General, Punjab for necessary action by the local Government. This Appendix does not concern the Public Accounts Committee.

2. Two copies of the accounts of the receipts and disbursements of the Secretary of State and the High Commissioner for India on the accounts of the Government of the Punjab for the year 1925-26 together with two copies of the Appropriation Accounts, and the reports thereon prepared by the Auditor of the (India) Home Accounts, are also forwarded herewith.

3. I offer the following comments on the Audit and Appropriation Accounts.

4. *Page 2—Paragraph 7 (1).*—In the present report the old form of the appropriation accounts has been adopted which exhibits the variations between the net grant (*i.e.*, after re-appropriations by other competent authorities) and the actual expenditure, and gives explanations for such variations. The report thus fails to comply with the requirements of one of the fundamental principles upon which my recommendations for the re-organisation of these reports were based. In order to discharge its statutory responsibility the Public Accounts Committee is interested to know the variations of expenditure against the grants as finally sanctioned by the Council with reasons for such variations and they can be helped in this matter if the form suggested by me (*viz.*, Form A of the Manual of Instructions for the preparation of Audit and Appropriation Reports) is adopted. Whether necessary re-appropriations were made by 'other competent authorities' to cover excesses or to reduce savings within a grant and whether adequate financial control over expenditure has been exercised are matters mainly for the Executive Government and the Accountant General's comments on these matters can be given in appropriate footnotes to the several accounts.

If however the local Government is anxious to continue to be furnished in one place, *i.e.*, in the appropriation account itself the information regarding re-appropriations made by other competent authorities and the variations between the net grant and the actual expenditure, I suggest the adoption of the annexed form which has already been introduced in one province. I may mention in this connection that although the Auditor General is the ultimate authority to prescribe the form of the appropriation accounts, I shall be glad, at least for the present, to meet the wishes of the local Government in the matter as far as possible.

5. *Paragraphs 8 to 22—Provincial Finance.*—The financial position of the province as brought out in this portion of the report is satisfactory. Attention is however called to the Accountant General's remarks in paragraph 19.

6. *Page 8.—'Note' below the statement.*—From the table given below it would appear that, as compared with the year 1921-22, there has been an increase in expenditure met from Revenue in 1925-26 under "Transferred" while there has been a decrease under "Reserved". If the figures for provincial contributions are excluded from columns (1) and (2), *viz.*, 1,75,00 and 1,13,84 respectively, column (3) of the table would exhibit an increase of 17,70 only which is much smaller than that shown in column (6). This seems to support the view that funds made available for expenditure by the remission of the contribution were utilised to a considerable extent in meeting expenditure under Transferred.

Expenditure excluding that not charged to Revenue.

| Reserved. | | | Transferred. | | | Contributions. | | |
|---------------------------|----------|-----------------------|--------------|----------|-----------|----------------|----------|-----------|
| 1921-22. | 1925-26. | Increase+ Decrease | 1921-22. | 1925-26. | Increase. | 1921-22. | 1925-26. | Decrease. |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 9,34,50 | 8,91,04 | —43,46 | 3,06,92 | 3,74,75 | 67,83 | 1,75,00 | 1,13,84 | 61,16 |
| <i>Less Contribution.</i> | | | | | | | | |
| —1,75,00 | —1,13,84 | .. | .. | .. | .. | .. | .. | .. |
| 7,59,50 | 7,77,20 | + 17,70 | | | | | | |

7. *Page 28—Paragraph 44.*—Considerable changes in rule 45 of the Fundamental Rule have been recommended to the Secretary of State.

8. *Page 32—Paragraph 57.*—A memorandum was prepared by me on the question of the treatment of gross and net grants and the accounting problems involved therein which was discussed at the conference of Financial Representatives held in Delhi in November 1926. It was agreed that the rules proposed in paragraph 12 of my memorandum should be tentatively adopted in all provinces. As, however, the promulgation of the rules is likely to necessitate considerable changes in the forms of Provincial Demands for grants and as it is essentially desirable that the form of the Budget should conform, as far as possible, to the form of the final accounts, I have called for the considered opinion of the local Governments on the subject before taking final action *vide* my letter No. 613-Ac/507 Audit-23, dated the 8th March 1927. The views of the local Governments are awaited.

9. *Page 33—Paragraph 60.*—It has since been decided by the Government of India that the Public Accounts Committee is entitled to offer, in its report, criticisms and recommendations upon any matter discussed in the Audit and Appropriation Reports or in the Auditor General's forwarding letter whether such matter concerns the accounts of expenditure, voted or non-voted, or those of receipts *vide* paragraph 4 of Government of India, Finance Department, letter No D-1944-A, dated the 11th August, 1926. The only exception is expenditure on backward tracts.

10. *Pages 33-34—Paragraph 62.*—The attention of the Public Accounts Committee is invited to this paragraph. In paragraph 22 of their report on the accounts of 1924-25 the Central Public Accounts Committee have made the following recommendations.

"In the case of voted expenditure when expenditure in excess of the sum voted by the Assembly has to be incurred or when it is desired to apply savings to a new service, a supplementary grant has to be obtained from the Assembly in order to regularise the expenditure. The Assembly is thereby made acquainted with the facts in each case. On the other hand, when the expenditure is non-voted, the Finance Department's sanction is sufficient to regularise excess expenditure or expenditure on a new service, and there is at present no formal arrangement by which the facts are brought to the notice of the Assembly. We examined the Financial Secretary on this subject and he has handed in a memorandum (Appendix IX) in which he has suggested that the Finance Department should lay a statement on the table of the Assembly at the time of the presentation of the annual Budget detailing the cases in which its sanction has been given for supplementary grants for non-voted expenditure in a form analogous to that used for supplementary grants for voted expenditure, thereby enabling the Assembly to be made acquainted with facts in regard to non-voted expenditure which are of interest to it. We recommend that this procedure should be introduced. Its adoption will we think go far to secure that the Finance Department will obtain punctual information from other departments for its own use and that the rules requiring formal regularisation of excesses over sub-heads of a grant as well as over the total provision under a grant will be duly followed in regard to non-voted expenditure. The procedure we propose should also be of some value in establishing firmly the methods which are gradually coming into force for enabling officers and departments responsible for expenditure under particular grants to watch carefully the progress of expenditure during the year—a matter to which we, as the preceding Public Accounts Committees have done, attach the greatest importance."

11. *Paragraph 63—"Note".*—In this connection the attention of the Public Accounts Committee is invited to paragraphs 118 to 120 of the report.

12. *Paragraph 67.*—The attention of the Public Accounts Committee is invited to the excesses noticed in this paragraph which require the vote of the Council.

13. *Paragraph 69* —The total savings over both voted grants and non-voted appropriations amount to 12 per cent. This is very much larger than the percentage which is regarded as a reasonable saving on a close estimate and is larger than in any other province save one. The Public Accounts Committee may desire to express the hope entertained in sub-paragraph (b) and endorse the view expressed in sub-paragraph (c). It may also desire to express the opinion that lump cuts should be made from demands for expenditure on large works in progress. Attention is invited to my detailed comments on Grant 22 *vide* paragraph 33 of this letter.

14. *Paragraph 71—item (4).*—If the entertainment of stenographers was regarded as a 'new service', a decision which seems to me doubtful, there should have been a specific vote of the Council and the Public Accounts Committee may wish to ascertain whether this was obtained.

15. *Paragraph 83* —The attention of the local Government is invited to this paragraph.

16. *Paragraphs 88, 89, 90 and 96.*—The attention of the Public Accounts Committee is invited to these paragraphs.

17. *Paragraph 99—(a) First sub-paragraph.*—The Public Accounts Committee may like to investigate whether the amalgamation could not have been anticipated at the time of framing the Budget.

(b) *Second sub-paragraph.*—The special attention of the Public Accounts Committee is invited to this paragraph.

18. *Paragraph 102.*—The attention of the Public Accounts Committee is invited to this paragraph.

19. *Paragraph 103.*—The Public Accounts Committee may like to consider the first point raised in this paragraph.

20. *Paragraphs 121 to 132—Action taken on previous Audit and Appropriation Reports.*—I desire to emphasise the importance of linking up the work of one Public Accounts Committee with that of its predecessors. If the personnel remained substantially the same there would be obvious advantages in Public Accounts Committee undertaking this duty before proceeding to consider the report of the year under consideration. But if the personnel is almost entirely changed there may be advantages in undertaking this duty after it has considered that report.

It is suggested that the Public Accounts Committee should ascertain and record in its own report the position of any items on which final action has not yet been taken so that these matters may not be lost sight of. The Public Accounts Committee may also desire to consider the following suggestions :—

(i) That it should study—

- (a) the report of its predecessor,
- (b) the outstanding items from previous report,
- (c) the orders passed by the local Government on (a) and (b),
- (d) any comments the Accountant General may have to offer on (c),

(ii) That the local Government should be asked to issue orders on (a) in time to enable the Accountant General to submit (d) to the Public Accounts Committee at its next meeting.

21. *Paragraph 125.*—The orders quoted in this paragraph are of extreme importance because the main impression which the report makes upon me is that the overbudgeting for the year under report was so excessive that Controlling officers must have felt there was little need for close financial control.

22. *Paragraph 127 (d).*—Attention is invited to my remarks in paragraph 9 of this letter.

23. *Pages 100 and 101—Grant No. 3—Stamps.*—The Public Accounts Committee may like to take notice of the fact that the saving of about 19 per cent. over the total voted grant for Stamps is mainly due to apparent overbudgeting under heads B and F as pointed out by the Accountant General in his note on page 101.

24. *Pages 102, 120 to 123 and 194 to 197.*—I notice that both Capital and revenue expenditure has been provided for in the same demand for grants and in this connection the question arises whether it is not desirable to present separate demands for capital and revenue expenditure. A budget estimate as presented to a Legislative Council presents to the Council an estimate of the net result of the revenue transactions of a year and also an estimate of the closing balance of Government as a whole having regard to revenue, capital and debt transactions. The inclusion within one grant of capital and revenue transactions of the same character enables the local Government to reappropriate between the revenue and capital account and such reappropriations will necessarily affect the revenue balance to which the Legislative Council may, and should, attach considerable importance.

On the other hand it is admitted that the question whether expenditure of a Capital nature should be met from loan funds or from current revenues is merely a problem of ways and means and it may be convenient for the local Government not to decide until the close of the year how much of such expenditure is to be met from Capital and how much from current revenues. Further a local Government can always affect the Revenue balance by increasing or reducing non-voted expenditure.

It is for the Public Accounts Committee to advise the Legislative Council and local Government what view should be taken on this aspect of the question. I suggest that the real issue can be raised if the Public Accounts Committee will consider whether it shall advise that capital and revenue transactions shall not be included within the same grant.

25. *Pages 122 and 123—Irrigation.*—The original grant was 3,61,61. The actual expenditure was 3,18,02. The saving was 12 per cent. of the original grant. A lump sum cut under this head would seem desirable. Attention is invited to my more detailed comments on Grant No. 22 *vide* paragraph 33 of this letter.

26. *Page 129—Note (X).*—This appears to be a striking case of over-estimating the provision for expenditure on works, specially in view of the fact that the additional funds were obtained by means of a supplementary demand.

27. *Page 129—Note (DD).*—The Public Accounts Committee may wish to ascertain why the decision was not accompanied by the consequential reappropriation of funds.

28. *Pages 148 and 149—head (A) voted.*—The reduction of 97 from this head appears to indicate inadequate knowledge of the progress of expenditure as there was an excess of 68 in the final result.

29. *Pages 150 and 151—Grant 12—Police; Pages 158 to 161—Grant 15—Education (Transferred).*—These accounts are examples of what can be effected by cautious budgeting and by an adequate control over expenditure even in large departments.

In regard to the latter grant a reference is however invited to the second sub-paragraph of paragraph 99 of the report. It may be presumed that this grant would have shown an even better result had the controlling officer taken proper steps to have his accounts verified regularly by the Accountant General.

30. *Page 153—Note B (V).*—The Public Accounts Committee may desire to ascertain from the Accountant General how the matter now stands and what steps have been taken to prevent these double adjustments in future.

31. *Page 173—Notes (G) and (H).*—The Public Accounts Committee, may like to enquire into the reasons for the excess provision under these heads.

32. *Page 186—Head A.*—The additional grant of Rs. 4,400, which was not for a 'new service' seems to have been unnecessary in view of the ultimate saving which accrued under this head.

As the figures for progressive expenditure in the early part of the year are not always a safe guide to determine whether any supplementary grant will be actually necessary to meet any additional expenditure other than that relating to a 'new service', it is for consideration whether it should not be prescribed as a working principle that ordinarily no demand for supplementary grant except for a new service should be asked for until more reliable figures are available justifying the demand.

33. *Pages 196-197—Grant No. 22—Civil Work (Transferred).*—Against a net grant of 1,90,46 the actual expenditure was 1,23,00, a saving of over 35 per cent. A lump sum cut under this head would seem desirable.

A scrutiny of the reasons for the savings shows that compliance with the new rules set out in paragraph 125 of the report will not operate to stop savings completely. There are inevitable delays in works due to causes arising in the course of the year, savings due to which can only be obviated by lump cuts.

34. *Page 201—Note (V) non-noted.*—The attention of the Public Accounts Committee is invited to the important suggestion in the last three lines. In the last line "prospects" should be substituted for "prospectus".

35. *Page 234—Refunds (Reserved).*—There were "excesses" and not a 'Deficiency of actual expenditure' as stated in the footnote below the statement.

36. *Page 235—note (F).*—The Public Accounts Committee may desire to ascertain whether suitable action has been taken to overcome the difficulties referred to here.

37. *Page 237—note (A).*—The Public Accounts Committee will no doubt wish to ascertain why no effort was made to meet this refund as it has caused a serious excess over a grant.

38. In the following cases provision of funds was made under heads other than those to which the amounts were properly debitable. The Public Accounts Committee may suggest to the local Government that funds should always be asked for to meet particular expenditure under the head under which such expenditure will finally be recorded in the accounts.

Page 99—note (A),

Page 141—notes (J) and (K),

Page 146—note (A) (i),

Page 153—notes (E) and (F),

Page 209—note (E) non-voted,

Page 215—note (B),

Page 219—note (F) (ii),

Page 221—footnote (2),

Page 235—note (H),

39. It appears that savings frequently occur under the head "Pay of Establishment" e.g., page 97—note D (ii) (a), page 105—note (IV)—Voted, page 141—note (I) (ii), page 146—note (A) (ii), page 147—notes (C) (ii) (b) and (C) (iii) and page 153—note (B) (ii). In paragraph 13, of its report

on the accounts of the year 1924-25 the Central Public Accounts Committee said on this—

“We have devoted careful consideration to the evidences of a tendency to over-estimate expenditure in the preparation of Demands for Grants which are afforded by numerous instances brought to notice in the Appropriation Accounts now under review. It appears to us that this tendency to over-estimate is particularly noticeable (a) in the provision made for establishments and (b) in the sums entered under heads relating to expenditure on works whether chargeable to capital or to revenue. It seems to have been the regular practice for the provision under such heads as pay of establishments to be calculated on the basis of existing cadres with little reference, if any, to the probability of savings due to casualties, leave, seconding to other duties, and so on. The result is that at the end of the year comparatively large underspendings are brought to light for which allowance might well have been made in the original estimates. The existence of such margins facilitates re-appropriations to purposes not contemplated at the time when the budget was framed, for which no specific authorisation has been obtained from the Assembly, and even if, as we are assured is the case and as the comparatively large realised surpluses on recent budgets tend to prove, the Finance Department has been increasingly strict in recent years in preventing such re-appropriations, we are nevertheless of opinion that steps should be taken to ensure that the provision under such heads as pay of establishment should be based not only on existing cadres, but also on the experience of previous years, and a suitable lump sum deduction made for probable underspendings under these particular heads. The Finance Department have already introduced with advantageous results in the past two years the system of making lump sum cuts in the demands for grants as a whole to allow for probable underspendings, and we expect that the effect will be to reduce the extent of underspending disclosed in the estimates of 1925-26 and 1926-27. We are inclined to the opinion, however, that this system should be applied more boldly than has yet been the case, and that further improvement could be obtained if careful statistics were kept of the proportion between actual expenditure and estimate based on the existing cadres under establishment heads.”

The budget estimate should be as close as possible, and the Public Accounts Committee may desire to suggest that lump cuts should be made under this head when the demand under such a head is large. I regard this as one of the main causes of the overbudgeting to which attention has been drawn in paragraph 13 of this letter.

40. The special attention of the Public Accounts Committee is invited to paragraph 3 of the report of the Auditor of the (India) Home Accounts on the accounts of the High Commissioner for India for the year 1925-26.

41. *Appendix—paragraph 4.*—From the table given below it will appear that, as compared with the two previous years, the percentage of objections to total expenditure in the Public Works was considerably higher in the year under review. The attention of the local Government is invited to this.

| | Percentage. | |
|-------------------|---------------|--------|
| | Public Works. | Civil. |
| 1923-24 | 2·3 | ·17 |
| 1924-25 | 2·49 | ·30 |
| 1925-26 | 5·06 | ·14 |

ANNEXURE (referred to in paragraph 4 of the letter).

(Sample Form.)

Appropriation Account of Grant I—Land Revenue—Reserved.

| Major and Minor heads of accounts. | Final appropriation. | Actuals. | Excess (plus) or savings (minus) over final appropriation. | Net re-appropriation sanctioned by competent authorities (voted only). | Remaining excess (plus) or savings (minus) (voted only). |
|-------------------------------------|----------------------|-----------|--|--|--|
| 1 | 2 | 3 | 4 | 5 | 6 |
| | Rs. | Rs. | Rs. | Rs. | Rs. |
| <i>B.—Land Revenue.</i> | | | | | |
| (1) Charges of Administration .. | 31,500 | 2,403 | —20,087 | —28,900 | —197 |
| (2) Survey and Settlement .. | .. | .. | .. | .. | .. |
| Non voted 11,30,000 .. | 1,01,981 | 1,93,352 | —1,669 | .. | .. |
| Voted { Original 25,20,400 .. | 26,46,192 | 27,08,186 | + 61,994 | + 90,350 | —28,356 |
| { Supplementary 1,16,792 .. | | | | | |
| Deduct—Recoveries of expenditure .. | —2,48,500 | —4,63,080 | —2,14,580 | —91,200 | —1,23,380 |

Enclosure X (a).

FROM SIR FREDERIC GAUNTLETT, K.B.E., C.I.E., I.C.S., AUDITOR GENERAL IN INDIA, TO THE SECRETARY TO THE GOVERNMENT OF BURMA, FINANCE AND REVENUE DEPARTMENT, No. 690-ADMN./77-27, DATED THE 21ST MAY 1927.

SUBJECT:—*Appropriation Report on the accounts of Burma for the year 1925-26.*

With reference to Rule 15(a) of the Auditor General's rules framed under Section 96D(1) of the Government of India Act, I have the honour to transmit herewith two copies of the Appropriation Report on the accounts of Burma for the year 1925-26, prepared by the Accountant General, Burma, for submission to the Public Accounts Committee and necessary action by the Government of Burma. I also transmit herewith two copies of the appendix to the report for action by the Government of Burma. This appendix does not concern the Public Accounts Committee.

Two copies of the accounts of the receipts and disbursements of the Secretary of State and the High Commissioner for India on account of the Government of Burma for the year 1925-26, together with two copies of the appropriation accounts, and the reports thereon prepared by the Auditor, (India) Home Accounts are also forwarded herewith.

2. I offer the following comments on the Appropriation Report.

3. *Paragraphs 3 to 7.*—(a) I await with interest the report of the Public Accounts Committee and the orders of the local Government thereon.

While the Committee will admit the efficacy of the safeguards mentioned in paragraph 7 of the Report, it will doubtless consider whether, with a view to establish a better and more effective control by the Legislature an increase in the number of grants is not desirable.

(b) I notice that both capital and revenue expenditure has been provided for in the same demand for grants and in this connection the question arises whether it is not desirable to present separate demands for capital and revenue expenditure. A budget estimate as presented to a Legislative Council presents to the Council an estimate of the net result of the revenue transactions of a year and also an estimate of the closing balance of Government as a whole having regard to revenue, capital and debt transactions. The inclusion within one grant of capital and revenue transactions of the same character enables the local Government to re-appropriate between the

revenue and capital account and such re-appropriations will necessarily affect the revenue balance to which the Legislative Council may, and should, attach considerable importance.

On the other hand it is admitted that the question whether expenditure of a capital nature should be met from loan funds or from current revenues is merely a problem of ways and means and it may be convenient for the local Government not to decide until the close of the year how much of such expenditure is to be met from capital and how much from current revenues.

Further a local Government can always affect the Revenue balance by increasing or reducing non-voted expenditure.

It is for the Public Accounts Committee to advise the Legislative Council and local Government what view should be taken on this aspect of the question also. I suggest that the real issue can be raised if the Public Accounts Committee will consider whether it shall advise that capital and revenue transactions shall not be included within the same grant.

4. *Paragraph 9.*—To meet the criticism of the Public Accounts Committee the reserve so created should be regarded as at the disposal of Government. The point is that it should be regarded as withdrawn from the disposal of the subordinate authorities to whom it had been originally allotted.

5. *Paragraph 10.*—The saving is 8·3 per cent. of the total net grant and this is much larger than the percentage which should be regarded as a reasonable saving on a close estimate. It is probable that this large excess is mainly due to over-estimating in many cases. Over-estimating is as much a financial irregularity as expenditure in excess of grants and the Public Accounts Committee may desire to investigate the system of budgeting specially under those important heads of expenditure under which the savings have been largest such as '15—Other Revenue Expenditure financed from Ordinary Revenues', '16 and 55 Construction of Irrigation, etc., Works', '41—Civil Works', '8, 9A and 52A—Forest', '33—Public Health', '34—Agriculture' and 'Loans and Advances'—*vide* pages 48 to 100.

6. *Paragraph 13.*—In this connection a reference is invited to the first portion of paragraph 18 of the report. The excess of Rs. 8,46,349 (exclusive of Rs. 8,157 erroneously classified in the accounts under voted) is over the net grant after taking into account the modifications sanctioned by other competent authorities whereas it has been recognised that only excesses over grant as finally sanctioned by the Legislative Council requires to be regularised by the vote of the Council. In this case the excess which requires to be so regularised is Rs. 8,41,692 (exclusive of Rs. 8,157 mentioned above).

A great part of the saving is attributable to the faulty method of adjustment mentioned in paragraph 14 of the report and I invite the special attention of the Public Accounts Committee to the remarks and suggestions of the Accountant General in this paragraph. A reference to the figures under G2 and G4 on page 53 and the notes on page 60 will show how serious was the failure in the year under report to follow the prescribed procedure.

7. *Paragraph 17.*—As the reduction of a grant voted by the Council is unconstitutional, the Finance Department is not competent to sanction a formal re-appropriation from a voted to a non-voted service.

A local Government is however entitled to sanction supplementary funds for any non-voted service and such sanction is fully justified if the local Government is assured that there will be a saving under a specified voted grant. It is also entitled to issue executive orders to the authority controlling any specified voted grant to restrict the expenditure within a specified figure. The correct course to adopt, therefore, in such cases is that suggested by the Accountant General in this paragraph.

8. *Paragraph 25.*—The Secretary of State's orders have since been received in his Financial Despatch No. 57, dated the 25th November 1926, a copy of which, no doubt, the local Government has already received.

9. *Paragraphs 27 to 46—Provincial Finance.*—In his despatch referred to in paragraph 8 above the Secretary of State has desired the Burma Government to report specially on their financial position in the next annual

statement to be submitted through the Government of India. I have requested the Government of India to show me the report of the local Government when it is received by them. Until that report is seen I refrain from commenting on the financial position of the Government.

10. *Paragraph 48.*—The audit conducted by the Chartered Accountants is undertaken on my behalf. Some of the work undertaken by the firm is on behalf of the local Government. The firm, therefore, is selected by the local Government and by the Auditor General in conjunction.

11. *Paragraph 50.*—It is important that these standing orders should be promulgated as early as possible.

12. *Paragraph 51.*—My Director of Commercial Audit has called the attention of the local Government to the continuing loss on the working of the Dockyard and is still of opinion that the overhead charges recovered are insufficient.

13. *Paragraph 52.*—In view of the very serious loss during the year under report on the working of the dredgers, the Public Accounts Committee will no doubt desire to investigate carefully the causes of this heavy loss and specially the unproductive expenditure on the salvage of the vessel H. R. Edwards. It is suggested that the Committee should ascertain definitely how much money has been spent on the attempt to save this vessel.

14. *Paragraph 53.*—My Director of Commercial Audit has brought to the notice of the local Government the rapid increase of stock in the brick-fields. This increase is important in view of the fact that at Kambe the Manager receives a bonus on the total production of bricks.

15. *Paragraph 55.*—This statement does not include indirect charges; it shows only the direct charges as shown in Account No. 33 of the Finance and Revenue Accounts. The indirect charges relating to these projects debitable to Capital accounts of Irrigation Works and also those debitable to Working Expenses of the Irrigation Works in Burma as shown in the Administrative Account are given below—

| Project. | Capital Outlay. | | Working Expenses. | |
|--|--------------------------|-------------------------|--------------------------|-------------------------|
| | During the year 1925-26. | To end of year 1925-26. | During the year 1925-26. | To end of year 1925-26. |
| | Rs. | Rs. | Rs. | Rs. |
| Mandalay Canal | 657 | 1,57,959 | 8,620 | 1,80,270 |
| Shwelo Canal | 2,494 | 1,72,209 | 25,253 | 3,37,436 |
| Ye-u Canal | 9,606 | 3,50,675 | 22,399 | 96,205 |
| Mon Canal | 5,292 | 2,20,933 | 14,656 | 1,32,776 |
| Twante Canal | .. | 2,48,552 | 7,700 | 51,119 |
| Irrawaddy embankment (Henzada Section) | .. | 63,983 | 13,021 | 2,45,968 |

16. *Paragraphs 57 and 58.*—The Public Accounts Committee may wish to ascertain what progress has been made in the commercialisation of the accounts of the Utilisation Circle and in the preparation of the Block Capital Account of the various departments.

17. *Paragraph 60.*—A reference to paragraph 26 shows that the receipts from the Rice Control profits which have passed into the balances of the local Government have amounted to 10,89,68. The final expenditure therefrom has been 7,06,06. Therefore, if the Rice Control profits were regarded as a separate fund, the balance due to it from the general balances of Government would be 3,83,62. The actual closing balance of the province, however, on the same date was 2,43,20—*vide* paragraph 21, including 2,08 being the balance of the Famine Insurance Fund, which cannot be utilised on any objects other than those prescribed in the Devolution Rules and is to be regarded as invested with the Government of India. The general balance of the Province excluding 2,08 therefore stood at 2,41,12 and has consequently drawn upon the Rice Control Profits to the extent of 1,42,50.

18. *Paragraph 63—sub-paragraph 5.*—The Government of India have since held that cases arising in a 'backward tract', in which the provisions of Section 72D of the Government of India Act do not apply, do not come under the cognizance of the Public Accounts Committee or the Legislative Council, as the functions of these bodies are regulated by the rules framed under that Section of the Act.

19. *Paragraph 68.*—I invite a reference to my remarks in paragraph 8 above.

20. *Paragraph 69.*—I must adhere to the view expressed herein.

21. *Paragraph 74.*—It is most desirable that the report of the Public Accounts Committee should be with the local Government in time to give it ample opportunity to consider and take action on the report and communicate the action taken to the Accountant General before he has to prepare the next Appropriation Report.

22. *Page 58—Note A.-2.*—The Public Accounts Committee may like to enquire whether the expenditure on acquisition of land for extension of towns and villages could not be anticipated at the time of framing the budget. It may also like to consider whether the expenditure should not be considered as on a 'New Service not contemplated in the budget'. The information given is insufficient to enable me to express an opinion. The expenditure involved, however, seems to be so considerable as to justify the consideration of this question by the Committee.

23. *Page 58—Note A.-3.*—The Public Accounts Committee may wish to ascertain whether Government has not sufficient information as to the nature of the season and the probable revenue collections to enable it to re-appropriate funds to meet this very considerable excess of nearly 2½ lakhs.

24. *Page 5—Note A.-4—Item (1).*—It appears that savings frequently occurs under the head "Pay of Establishment". In paragraph 13 of its report on the accounts for the year 1924-25 the Central Public Accounts Committee said on this subject.

"We have devoted careful consideration to the evidences of a tendency to over-estimate expenditure in the preparation of Demands for Grants which are afforded by numerous instances brought to notice in the Appropriation Accounts now under review. It appears to us that this tendency to over-estimate is particularly noticeable (a) in the provision made for establishments and (b) in the sums entered under heads relating to expenditure on works whether chargeable to capital or to revenue. It seems to have been the regular practice for the provision under such heads as pay of establishments to be calculated on the basis of existing cadres with little reference, if any, to the probability of savings due to casualties, leave, seconding to other duties, and so on. The result is that at the end of the year comparatively large underspendings are brought to light for which allowance might well have been made in the original estimates. The existence of such margins facilitates re-appropriations to purposes not contemplated at the time when the budget was framed, for which no specific authorisation has been obtained from the Assembly, and even if, as we are assured is the case and as the comparatively large realised surpluses on recent budgets tend to prove, the Finance Department has been increasingly strict in recent years in preventing such re-appropriations, we are nevertheless of opinion that steps should be taken to ensure that the provision under such heads as pay of establishment should be based not only on existing cadres, but also on the experience of previous years, and a suitable lump sum deduction made for probable underspendings under these particular heads. The Finance Department have already introduced with advantageous results in the past two years the system

of making lump sum cuts in the demands for grants as a whole to allow for probable underspendings, and we expect that the effect will be to reduce the extent of underspending disclosed in the estimates of 1925-26 and 1926-27. We are inclined to the opinion, however, that this system should be applied more boldly than has yet been the case, and that further improvement could be obtained if careful statistics were kept of the proportion between actual expenditure and estimate based on the existing cadres under establishment heads."

The budget estimate should be as close as possible, and the Public Accounts Committee may desire to suggest that lump cuts should be made under this head when the demand under such a head is large. I regard this as one of the main causes of the overbudgeting to which attention has been drawn in paragraph 5 of this letter.

25. *Page 59—(a).—XI State Railways.*—As the Railway was not transferred to the Railway Board, should not the local Government have been aware that some expenditure would be incurred thereon during the year and have provided funds therefor?

(b) *12—Miscellaneous Railway Expenditure.*—The Public Accounts Committee may like to enquire when the survey was commenced and whether it was not possible to anticipate the recovery at the time of framing the budget.

26. *Page 60—(a) Note G.-1.*—The reduction under this head as well as under the following heads indicates lack of knowledge about the progress of expenditure. The local Government may like to investigate whether the control in these quarters is effective—

Page 66—Head A.-8.

Page 68—Head G.-6.

Page 90—Head D.-8.

(b) *Note G.-3.*—In view of the fact that the provision under the "Steam and Motor Launches, etc." was exceeded in 1924-25 also, the Public Accounts Committee may like to enquire whether the budgeting under this head is not defective.

(c) *Note G.-7.*—It is not understood why the provision for this recovery could not be made on the receipt side under the proper head.

27. *Page 61—Note L.-1.*—The Public Accounts Committee may desire to investigate this defective estimating.

28. *Page 62—Note M.-2; Page 71—Note A.-10; Page 74—Note D.-10 and F.-3; Page 87—Head H.-7; Page 94—Note D.-1 and Page 97—Note F.-3.*—In these cases provision of funds was made under heads other than those to which the amounts are properly debitable. The Public Accounts Committee may suggest to the local Government that funds should always be asked for to meet particular expenditure under which such expenditure will finally be recorded in the accounts.

29. *Page 62—Note M.-7.*—The Public Accounts Committee may like to know the decision of the local Government.

30. *Page 63—Note Q.-1.*—It is not clear why such a big refund could not be anticipated at the time of framing the budget. It is suggested that, even though there may be some uncertainty as to the exact head under which such a transaction will eventually appear in the accounts, provision should be made somewhere in the Budget.

31. *Page 70—(a) Note A.-8.*—The Public Accounts Committee may wish to consider whether further details of appropriation and of expenditure should not be given under this minor head under which the provision is over 45 lakhs.

(b) *Note A.-10.*—The original appropriation for expenditure under this head—Sub-divisional Establishment—was 6.65, the expenditure was

7-99 or 20 per cent. in excess. The Public Accounts Committee may wish to ascertain why it was not possible to frame a more accurate estimate under this head.

32. *Page 72—Note B.-2.*—The figures on page 66 show that the additional re-appropriation was not required.

33. *Pages 74 and 75—41 Civil Works.*—The figures seem to indicate that a much more drastic cut for probable savings would have led to closer estimating.

34. *Page 76—Note K.-2.*—The Public Accounts Committee may desire to ascertain how the need for this refund and for this adjustment arose.

35. *Pages 79 and 80—41 Civil Works*.—The total sum voted by the Legislature was 1,53.85 even after deducting 17.65 for probable savings. The actual expenditure was 1,35.59. The remark offered against 41—Civil Works on pages 74 and 45 (*vide* paragraph 33 of this letter) applies here also but with even more force.

36. *Pages 83 and 84—8, 8-A, and 52-A.—Forests, etc.*—There appears to be scope for considerable improvement in budgeting under these heads.

37. Pages 84 and 85—Notes F. and F.-2.—There appears to be scope for considerable improvement in budgeting under 'Supplies and Services' in the Agricultural Department. The same comment applies in the case of the Medical Department also *vide* note E.-2 on page 95 and Note Q.-9 on page 121.

38. *Page 86—Note G.-2 and page 97—Note F.-7.*—I am not sure what the Accountant General mean by the last sentence of these notes. If he means that stores were received but not paid for during the year, a serious financial irregularity has been committed which requires investigation.

39. *Page 88—Note L.-3.*—The Public Accounts Committee may like to enquire whether the refund could not have been anticipated at the time of framing the budget and if not why the funds for it could not be provided for by re-appropriation.

40. *Page 72—41 Civil Works.*—The total sum voted by the Legislature was 48,50 after deducting 2.22 for probable savings. The actual expenditure was 41,18. The remarks made in paragraphs 33 and 35 of this letter applies here also.

41. *Page 116—Note B.-3 and elsewhere.*—Apparently much of the expenditure on "Backward Tracts" was budgeted for under Transferred heads whereas it was all eventually recorded in the accounts under Reserved heads. Funds should always be asked for to meet particular expenditure under the head under which that expenditure will be booked in the accounts *vide* paragraph 28 of this letter.

42. *Page 121—Note R.-3.*—The Public Accounts Committee may like to investigate whether more reliable estimating is not possible for expenditure in England. In this connection reference is also invited to—

[illegible]

43. *Pages 126 and 127.*—The saving on the original grant is over 14 per cent. In this connection attention is invited to my comment in paragraph 5 of this letter.

44. Attention of the Public Accounts Committee is also invited to paragraph 4 of the Home Auditor's report on the accounts of the High Commissioner for India for 1925-26.

45. *Appendix—Paragraph 11.*—Attention of the local Government is invited to the remarks made by the Accountant General in this paragraph.

Enclosure X (b).

LETTER FROM SIR FREDERIC GAUNTLETT, K.B.E., C.I.E., I.C.S., AUDITOR GENERAL IN INDIA, TO THE SECRETARY TO THE GOVERNMENT OF BURMA, FINANCE AND REVENUE DEPARTMENT, No. T.-374-ADMN./77-27, DATED THE 13TH JUNE 1927.

SUBJECT:—*Appropriation Report on the accounts of Burma for the year 1925-26.*

In continuation of my letter No. 690-Admn./77-27, dated the 21st May 1927, forwarding the Appropriation Report on the accounts of Burma for the year 1925-26, I have the honour to forward herewith an extract of paragraph 5 from the report of the Auditor of Indian Home Accounts upon the accounts of the High Commissioner for 1925-26 relating to central transactions. The case mentioned therein relating to cement is a transaction of the Government of Burma and the attention of the Public Accounts Committee is invited to this.

Enclosure XI (a).

LETTER FROM SIR FREDERIC GAUNTLETT, K.B.E., C.I.E., I.C.S., AUDITOR GENERAL IN INDIA, TO THE SECRETARY TO THE GOVERNMENT OF BIHAR AND ORISSA, FINANCE DEPARTMENT, No. 418-ADMN./KW. 78-27, DATED THE 1ST APRIL 1927.

SUBJECT:—*Appropriation report on the accounts of the Government of Bihar and Orissa for the year 1925-26.*

With reference to Rule 15 (a) of Auditor General's Rules framed under Section 96D (1) of the Government of India Act, I have the honour to transmit herewith two copies of the Appropriation Report on the accounts of the Government of Bihar and Orissa for the year 1925-26, prepared by the Accountant General, Bihar and Orissa, for submission to the Public Accounts Committee and necessary action by the Government of Bihar and Orissa. I also transmit herewith two copies of the appendix to the report for action by the Government of Bihar and Orissa. This appendix does not concern the Public Accounts Committee.

2. Copies of the accounts of receipts and disbursements of the Secretary of State and the High Commissioner for India on account of the Government of Bihar and Orissa for 1925-26, together with the Home Auditor's reports thereon will be transmitted to the Local Government when copies thereof are received.

3. In this letter attention of the Public Accounts Committee is drawn to certain important points. It is not my desire that their scrutiny of the Report should be confined to those points only to which I invite their special attention.

4. I offer the following comments on the Appropriation Report.

5. *Paragraph 13.*—The Government of India have since held that cases arising in a 'backward tract,' in which the provisions of Section 72 D of the Government of India Act do not apply, do not come under the cognizance of the Public Accounts Committee or the Legislative Council, as the functions of these bodies are regulated by the rules framed under that Section of the Act.

6. *Paragraph 16.*—In this connection a reference is invited to paragraph 4 of my letter No. 304-Admn./Kw. 50-26, dated the 22nd March 1926, forwarding the Appropriation Report for the year 1924-25, in which I emphasised the desirability, from the point of view of efficient administration, of issuing the book of financial powers at an early date.

7. *Paragraphs 21 and 28.*—It has since been recognised by the Government of India that once a demand has been voted by a Legislative Council there is no provision either in the Government of India Act or in rules made thereunder which permits the grant being reduced on the motion either of the Government or of a non-official Member. On the other hand a Local Government is entitled to sanction supplementary funds for any non-voted service and such sanction is fully justified if Government is assured that there will be a saving under a specified voted grant. It is also entitled to issue execution orders to the authority controlling any specified voted grant to restrict the expenditure within a specified figure. Thus it will be seen that the Finance Department is not competent to sanction a formal re-appropriation from a voted to a non-voted service as the reduction by any authority of a grant voted by the Council is unconstitutional as stated above.

8. *Paragraph 25.*—The excesses of actual expenditure over the final grant, *viz.*, Rs. 1,583 under 'Grant No. 8—Administration of Justice' and Rs. 24,318, under 'Grant No. 18—Industries' require the vote of the Council.

9. *Paragraph 34.*—The Public Accounts Committee will doubtless investigate the reason for the excess over the amount provided for the detailed head in question.

10. *Paragraph 47.*—In this connection attention is also invited to the explanations given by the Accountant General of the following items:—

- | | | | | | | | | | | |
|-----|---------------|------------------------|---|---|----|---|---|---|---|-------------|
| (1) | Page 50 | Grant No. 1 | . | . | . | . | . | . | . | A (g) |
| (2) | " | 73 | " | " | 9 | . | . | . | . | A (c) |
| (3) | " | 83 | " | " | 14 | . | . | . | . | D and F, N. |
| (4) | " | 85 | " | " | 15 | . | . | . | . | E. |
| (5) | Pages 141-142 | General Administration | | | | | | | . | K. |

It seems desirable to take further steps to bring home to controlling officers their responsibility for the control of expenditure from their grant. In this connection, correct classification of charges upon the bills in which money is claimed is of vital importance, as without it satisfactory control is impossible.

11. *Paragraph 51.*—This account has been unnecessarily complicated by the balancing entries (f), (g) and (m). These unnecessary accounts adjustments have also obscured the results in many other places, *e.g.* paragraphs 23 and 24 on page 9, Form A on page 125, and appropriation accounts on pages 169 and 183. The unnecessary entries in question have been omitted from accounts Nos. 10 and 11 of the Finance and Revenue Accounts for 1925-26. I am instructing the Accountant General to explain to the Public Accounts Committee the exact nature of the account adjustments represented by these entries.

12. *Paragraph 77.*—I regret that the report of the last Public Accounts Committee is not yet available as this seems to indicate a lack of appreciation on the part of the Public Accounts Committee of the importance of the work it is called upon to perform and also because it is desirable that the Accountant General should know what action the Local Government has taken on the report of the Public Accounts Committee on the Appropriation Accounts of one year before he has to prepare the Appropriation Accounts of the next year.

13. *Page 71—Grant No. 8.*—The explanation of the excess under sub-head D suggests the desirability of bringing prominently to the notice of controlling officers the fact that no satisfactory control over expenditure is possible unless a careful watch is kept over commitments and liabilities.

14. *Page 74—Grant No. 10.*—This account is an example of what can be effected by an adequate control of expenditure in a large Department.

15. *Page 84—Grant No. 15—Medical.*—(a) *B. Hospitals and Dispensaries.*—In view of the large ultimate savings, the supplementary grant would appear to have been unnecessarily demanded, unless expenditure on a 'new service' was involved.

(b) *D. Medical colleges and schools.*—More than 50 per cent. of the net savings relates to 'contingencies—non-contract'. The Public Accounts Committee may like to investigate whether the budgeting was not defective.

16. *Page 85—Explanation E.*—No other controlling officer seems to have submitted such an excuse. I suggest that the Public Accounts Committee ascertain whether, and if so how, his position as Controlling Officer differs from that of other Controlling officers.

17. *Page 103.*—The explanation under Gaya Jail Press would appear to point to defective budgeting.

18. *Page 141—Explanation K.*—The local Government may desire to investigate whether the control was effective.

19. *Page 146—26 Police—A. Superintendence.*—As the expenditure exceeded the budget estimate by nearly 50 per cent. it appears that the latter was defective.

20. *Pages 176—183—Annexure B.*—Omitting the accounts adjustment of 6,81,37 (*vide* explanation A on page 168) the grand total of grants for expenditure was 6,32,84 while the expenditure was 6,12,63. Thus the percentage of saving on the grant is 3.1. The result would have been substantially better but for the following heads in which the budgeting seems to have been excessive as there were savings to the extent of nearly 11 per cent.

| | Grant. | Expenditure. |
|--|--------|--------------|
| 5. Land Revenue—Reserved | 22,53 | 20,63 |
| 32. Medical—Transferred | 29,66 | 27,28 |
| 33. Public Health—Transferred | 14,83 | 12,18 |
| 34. Agriculture—Transferred | 12,69 | 11,36 |
| 46. Stationery Reserved and Printing | 10,31 | 8,86 |
| Total | 90,02 | 80,31 |

21. From the table below it would appear that additions were made to certain grants by supplementary grants obtained from the Council in August 1925 with the result that the savings under the final grants not only exceeded such additions but the actual expenditure against the respective grants was far less than the original grants. This seems to indicate that these supplementary grants were unnecessary, unless they were obtained for 'new services'. I therefore suggest for the consideration of the Local Government whether there should not be a principle that no supplementary grants should be obtained from the Council in August except for new services.

| Grants. | Supplementary grant obtained in August 1925. | Savings of actual expenditure over original grant. | Savings of actual expenditure over final grant (original and supplementary). |
|---|--|--|--|
| Grant No. 15—32-Medical (Transferred) .. | 74,020 | —1,63,588 | —2,37,608 |
| Grant No. 17—Agriculture (Transferred) .. | 31,270 | —96,697 | —1,27,967 |
| Grant No. 21—41-Civil Works (Transferred) .. | 32,837 | —3,55,543 | —3,88,440 |
| Grant No. 28—Expenditure in England under the control of the High Commissioner for India. | 1,612 | —69,114 | —70,726 |

22. From the notes under appropriation accounts it appears that savings frequently occur under the head "Pay of Establishment." In paragraph 13 of their report on the accounts of 1924-25, the Central Public Accounts Committee has called special attention to the tendency to over estimate the provision made for establishments. The budget estimates should be as close as possible, and the Public Accounts Committee may desire to suggest that lump cuts should be made under the head "Pay of Establishments" when the demand under such a head is large, say, exceeds one lakh.

Enclosure XI (b).

FROM SIR FREDERIC GAUNTLETT, K.B.E., C.I.E., I.C.S., AUDITOR GENERAL IN INDIA, TO THE SECRETARY TO THE GOVERNMENT OF BIHAR AND ORISSA, FINANCE DEPARTMENT, No. 720-Admn./78-27, DATED THE 23RD MAY 1927.

SUBJECT:—*Report of the Auditor (India) Home Accounts on the accounts of the Secretary of State and the High Commissioner for India for the year 1925-26.*

In continuation of my letter No. 418-Admn./K. W. 78-27, dated the 1st April 1927, forwarding Appropriation Report on the accounts of the Government of Bihar and Orissa for the year 1925-26, I have the honour to transmit herewith two copies of the accounts of the receipts and disbursements of the Secretary of State and the High Commissioner for India on account of the Government of Bihar and Orissa for the year 1925-26, together with two copies of the appropriation accounts, and the reports thereon prepared by the Auditor (India) Home Accounts for submission to the Public Accounts Committee, and necessary action by the local Government. Attention of the local Government is invited to paragraph 3 of the Auditor's report on the accounts of the High Commissioner for India.

Enclosure XII.

FROM SIR FREDERIC GAUNTLETT, K.B.E., C.I.E., I.C.S., AUDITOR GENERAL IN INDIA, TO THE SECRETARY TO THE GOVERNMENT OF CENTRAL PROVINCES, FINANCE DEPARTMENT, No. 932-Admn./79-27, DATED THE 4TH JULY 1927.

SUBJECT:—*Audit and Appropriation Accounts of the Government of Central Provinces for the year 1925-26.*

With reference to Rule 15 (a) of the Auditor General's rules framed under Section 96 D (i) of the Government of India Act, I have the honour to transmit herewith two copies of the Audit and Appropriation Accounts of the Government of Central Provinces for the year 1925-26, prepared by the Accountant General, Central Provinces, for submission to the Public Accounts Committee and necessary action by the Government of Central Provinces.

2. Two copies of the accounts of the receipts and disbursements of the Secretary of State and the High Commissioner for India on account of the Government of Central Provinces for the year 1925-26, together with two copies of the Appropriation Accounts, and the reports thereon prepared by the Auditor of Indian Home Accounts, are also forwarded herewith.

3. I offer the following comments on the Audit and Appropriation Accounts:—

4. 'Prefatory Remarks'—Paragraph 2.—The statement in the last sentence is based on paragraph 8 of my Report on the Enquiry into the possibility of assimilating Indian Appropriation Reports to the corresponding British Reports. It has since been decided that the present Audit Report, to be called hereafter the "Executive Report", should be made for the Executive Government only, while the Appropriation Report, to be called hereafter the "Appropriation accounts and the report of the Accountant General thereon," should be made a report for the local Government as well as for the Committee on Public Accounts; and the latter alone should constitute the "Audit and Appropriation Reports" referred to in rule 15 (a) of the Auditor General's Rules and the "Audit and Appropriation Accounts" mentioned in rule 33 of the Provincial Legislative Rules.

5. *Paragraph 2 of the report.*—In this connection attention is invited to the remarks made by the Accountant General in paragraph 102 of the report.

6. *Paragraph 6.*—The local Government will doubtless take steps to ensure that the Controlling officers comply strictly with the requirements of the rules framed by it for the control over expenditure. Reconciliation of the figures booked by the Controlling officers with those brought to account by the Accountant General at regular intervals is an essential feature of the scheme and the local Government may deem it desirable to issue special instructions bringing this fact prominently to the notice of the Controlling officers.

7. *Paragraph 7—Item 3 of the statement.*—In some cases (*e.g.*, Expenditure in England—Reserved and Transferred, Refunds of Revenue—Reserved and Transferred) the grants already sanctioned by the Legislature have been reduced by the vote of the Council. It has since been recognised by the Government of India that once a demand has been voted by a Legislative Council there is no provision either in the Government of India Act or in rules made thereunder which permits of the grant being reduced on the motion either of the Government or of a non-official member. Such reductions of grants are therefore *ultra vires* of the statutory rules.

It also appears from paragraph 15 that reappropriations have been made by the Finance Department from voted grants to non-voted heads. For the reasons given above such modifications by any authority of grants voted by the Council are also unconstitutional. The local Government is however entitled to issue executive orders to the authority controlling any specified grant to restrict the expenditure within a specified figure. On the other hand it is also entitled to sanction supplementary funds for any non-voted service against earmarked savings under specified voted grants. When therefore a definite lapse is anticipated in the provision made under a voted grant the proper course is to take the surrendered amount into a reserve within the grant at the disposal of the local Government and to obtain the requisite sanction for any additional allotment required to meet excess expenditure elsewhere, one argument in support of this request for additional allotment being that money is available in the reserve.

8. *Paragraph 7.*—While the total savings over the voted grants taken together show better results than those obtained in some of the other provinces, the large percentage of savings to the extent of 8·5 per cent. over the total non-voted appropriations seems to require investigation. This is much larger than the percentage which is regarded as a reasonable saving on a close estimate. I may remark that in England the Committee and Accountant General in commenting on the Civil Services appropriation accounts for 1925-26 pointed out that the savings were 1·5 per cent.

Taking the accounts of individual grants it appears that there is considerable scope for improvement in the method of budgeting. Attention is specially invited in this connection to the accounts of the following grants where the percentages of savings are very high—

| | | | | | Percentage. |
|--------------|----|----|----|----|-------------|
| Grant No. 2 | .. | .. | .. | .. | 8 per cent. |
| Grant No. 3 | .. | .. | .. | .. | 16 „ |
| Grant No. 5 | .. | .. | .. | .. | 13 „ |
| Grant No. 10 | .. | .. | .. | .. | 8 „ |
| Grant No. 19 | .. | .. | .. | .. | 28 „ |
| Grant No. 31 | .. | .. | .. | .. | 31 „ |
| Grant No. 32 | .. | .. | .. | .. | 14 „ |

The most common defect seems to be the under-estimating of savings under establishment. Instances of defective budgeting or over-estimating brought to light in the appropriation accounts will be found in—

(a) Page 76—heads (4) to (11).

(b) Page 77—heads (14), (15), (21) and (22).

(c) Page 80—note on “Survey and Settlement-General.”.

- (d) Page 81—note on head (57).
- (e) Page 84—note on head (12).
- (f) Page 87—note on heads (2) and (6).
- (g) Page 89—note on head (3).
- (h) Page 93—notes on heads (1), (2), (11) and (12).
- (i) Page 97—note on head (18).
- (j) Page 107—notes on heads (18), (28), (29), (30), (31), (35) and (36).
- (k) Page 108—notes on heads (47), (51), (55), (65), (71) and (72).
- (l) Page 115—notes on heads (31), (34), (37), (38), (40), (41), (44) and (45).
- (m) Page 116—notes on heads (56) and (57).
- (n) Page 120—notes on heads (12), (23) and (43).
- (o) Page 126—notes on heads (24), (30), (33) and (52).
- (p) Page 138—note on head (71).
- (q) Page 143—notes on heads (3), (11) and (19).
- (r) Page 144—note on head (20).
- (s) Page 149—notes on heads (24), (28) and (30).
- (t) Page 156—note on head (13).
- (u) Page 157—note on head (18).
- (v) Page 158—note on head (100).
- (w) Page 164—notes on heads (11), (14), (16) to (18) and (24).
- (x) Page 164—notes on heads (19) and (23).
- (y) Page 182—note on head (19).

In several cases mentioned above the over-estimating seems to have been persistent *vide* notes referred to in items (c) to (e), (g), (h), (j) to (w) and (y) and it is also noticed that most of these cases relates to 'pay' heads, specially the 'pay of establishment'.

As pointed out in paragraph 19 of the report the *minus* provision for 'probable savings' on account of pay of permanent establishment has in many cases proved too low, while it appears from the appropriation accounts that in most cases the provision for pay of temporary establishment has proved considerably higher than was ultimately found necessary. The method of budgeting under these heads seems to require careful consideration.

9. *Paragraph 9.*—The special attention of the Public Accounts Committee is called to the excess brought to notice in this paragraph which has to be reported to the Legislative Council.

10. *Paragraph 15* —Re-appropriation from voted grants to non-voted heads are unconstitutional as explained in paragraph 7 of this letter.

11. *Paragraph 16* —The attention of the Public Accounts Committee is invited to the excesses over grants and appropriations. The excesses over voted grants and the expenditure on a new service not contemplated in the budget require the vote of the Council.

12. *Paragraph 19.*—I endorse the view expressed by the Accountant General.

13. *Paragraph 28* —The attention of the Public Accounts Committee is invited to this paragraph. The Committee may perhaps like to consider why the disbursement of grants-in-aid should not be more evenly distributed throughout the months of the year.

14. *Paragraph 30.*—The common defect of overestimating for establishment is very apparent in the Public Works Department. In the Buildings and Roads branch the savings amounted to 10 per cent. and in the Irrigation branch to 7½ per cent.

15. *Paragraph 81.*—This case involved misappropriations on no less than 33 occasions spread over a period of seven years. This could not have been possible but for continued laxity of supervision and neglect of rules by successive Treasury officers. There has been an increasing tendency all over India towards irregularities and embezzlements in regard to stamps. I fear that Treasury officers generally do not sufficiently realise their responsibilities in this important matter of supervision over the stocks and accounts of stamps, and the issue of a special circular seems necessary to emphasise the fact that stamps are practically equivalent to cash and that disregard for their safety will entail severe disciplinary action.

16. *Paragraph 82.*—I endorse the view expressed in the last sub-paragraph.

17. *Paragraph 86.*—I endorse the view expressed by the Accountant General.

18. *Paragraph 93.*—In forwarding the Executive Report to the local Government I made the following comment on this case:—

“Without commenting upon the adequacy of the disciplinary action taken in the particular case, I would quote the following remark made by the Central Public Accounts Committee in paragraph 67 of its report on the Central Government’s accounts for 1924-25, which I heartily endorse—

“The fact that a sum lost is completely recovered does not necessarily imply that no additional punishment is required.”

19. *Paragraph 94.*—In forwarding the executive Report to the local Government I made the following comment on this case:—

“This is a case in which certificates of count in yearly returns were signed as a matter of course without actual verification. Audit has to depend to a large extent upon certificates supplied by executive officers, and it is therefore of great importance that such certificates should be based upon proved facts and should not be treated as a matter of mere routine”.

20. *Paragraph 96.*—I endorse fully the view expressed by the Accountant General in this paragraph and invite the special attention of the Public Accounts Committee to this.

21. *Paragraph 97.*—The figures given in this paragraph indicate that the improvement is being maintained and this is satisfactory.

22. *Paragraphs 103 to 111.*—I desire to emphasise the importance of linking up the work of one Public Accounts Committee with that of its predecessors. If the personnel remained substantially the same, there would be obvious advantages in the Public Accounts Committee undertaking this duty before proceeding to consider the report of the year under consideration. But if the personnel is almost entirely changed there may be advantages in undertaking this duty after it has considered that report.

The cases still outstanding are—

Audit Report for 1923-24 paragraphs 56, 66, 69 and 84.

Audit Report for 1924-25.—Paragraphs 10, 82 and 83.

Appropriation Report for 1924-25—stamps (*vide* paragraph 109 of the present report).

23. *Page 76—heads (4) to (11).*—The provision under these heads seems to have been considerably overestimated and the Public Accounts Committee may desire to investigate whether the explanations given on page 80 for these heads justify the large savings.

24. *Page 77—heads (14) and (15).*—The Public Accounts Committee may like to enquire whether the reasons given on page 80 for the savings under these heads and under the heading “Other surveys” could not have been anticipated at the time of framing the budget.

25. *Page 77—head (21).*—The Public Accounts Committee may like to enquire into the reasons for the large excess expenditure under this head.

26. *Page 77—head (22).*—The explanation of the saving under this head

given on page 80 is not quite clear. The fact that in some cases Deputy Commissioner conducted the settlement work in addition to their own duties may affect expenditure under the heads relating to "Pay and allowances" but not that under "Contingencies" which must be incurred by them as for survey operations.

Secondly the explanation that a portion of the saving was due to certain tour charges being met from Grant No. 7 implies that provision for some tour charges relating to "other surveys" was originally made under the head "(22) Countersigned Contingencies". Tour charges are debitable to the head "Travelling Allowance" and the provision should have been made accordingly.

The Public Accounts Committee may like to enquire into the validity of the explanation given for the savings under this head.

27. *Page 80—note "Survey and settlement"*.—The special attention of the Public Accounts Committee is invited to the remarks of the Accountant General under this head. The Committee may like to investigate whether the method of budgeting is not defective

28. *Page 81—note on head (57)*.—The Public Accounts Committee may like to enquire whether the saving under this head is not due to defective budgeting.

29. *Page 83—head (12)*.—The special attention of the Public Accounts Committee is invited to the Auditor General's remarks on the large savings against this head on page 84.

The provision for "Probable savings" under head (19) also proved quite inadequate.

30. *Page 87—note on 'heads (2) and (6)'*.—In view of the remarks made by the Accountant General the Public Accounts Committee may like to investigate whether the explanation furnished by the Controlling officer justifies the excess provision.

31. *Page 87—note on 'heads (3), (4), (7) and (8)'*.—The Public Accounts Committee may wish to ascertain whether a scheme has yet been devised whereby the superintendent can exercise closer financial control.

32. *Page 88—note on heads (1) and (2),*

Page 120—note on head (15),

Page 138—note on heads (84) and (85),

Page 139—notes on heads (103) to (105),

Page 157—note on head (48),

Page 167—note on heads (24) and (25),

Page 168—note on heads (33) to (36).

It is presumed that in future provision will be made in the estimates under the head under which the expenditure will eventually be recorded in the accounts.

33. *Page 89—note on head (3)*.—Attention of the Public Accounts Committee is invited to the Accountant General's remarks on the ultimate savings under this head.

34. *Page 90—'Note'*.—The Public Accounts Committee may wish to consider whether the mill should not at least be debited with the actual cost of conveyance of rough timber to the mill.

35. *Page 94—heads (5) and (14),*

Page 95—heads (21) and (27)

In view of the large savings under the grant, these reserves appear to have been unnecessary.

36. *Page 107—note on 'head (10).'*—With reference to the last two lines of the remarks relating to this head the attention of the Public Accounts Committee is invited to the provision in paragraph 7 of the Treasury Orders that "Departmental receipts shall not be appropriated to meet departmental

expenditure, except with the sanction of the Governor General in Council". This is a fundamental rule of extreme importance.

37. *Page 107—note on head (15).*—The excess expenditure under this head requires to be brought to the notice of the Council.

38. *Page 107—note on head (28).*—These comments of Accountant General ought to be very valuable as indicating the heads under which budgeting can be improved.

39. *Pages 107 and 108.*—It seems that there is considerable scope for improvement in the method of budgeting under individual sub-heads as will appear from the Accountant General's remarks against Heads (18), (28), (29), (30), (31), (35), (36), (47), (51), (55), (65), (71) and 72.

40. *Page 115—note on head (28).*—The additional appropriation of Rs. 18,700 in March 1926 indicates lack of knowledge regarding the progress of expenditure and the Public Accounts Committee might desire to investigate the matter.

41. *Page 115—note on head (31).*—The net additional appropriations obtained on four occasions, specially those obtained in December 1925 and January, 1926, give the impression that the control over expenditure under this head was not adequate.

42. *Page 120—note "General".*—Analysis shows that the savings under pay of officers and establishments are greater than the savings under contingencies which alone are affected by the explanation given by the Inspector General. I therefore endorse the Accountant General's remarks in the last sentence.

43. *Page 149—notes on heads (23) and (31).*—The statement that the excess expenditure of Rs. 19,551 under the head (23) was covered by re-appropriation from the head (31) is not clear as the saving under the latter head was only Rs. 11,657.

44. *Pages 170 and 171.*—The main cause of the excess under this grant seems to be the serious under-estimating in the Revised under Repairs *vide* note on Head (21). Considerable savings on works in progress have been so universal and noticeable a feature of these reports throughout India for many years past that the Public Accounts Committee may profitably enquire what measures were adopted in the year under report which led to the non-realisation of the anticipated savings.

45. *Page 172—note on head (5).*—In this connection I invite a reference to the Government of India, Department of Industries and Labour circular letter No. Ac.-W.-27, dated the 21st February 1925, regarding the regrant of lapses. The introduction of a similar system of regrant of lapses by the Government of Central Provinces would, it is expected, obviate the excesses of the nature mentioned in the latter portion of the note on Head (5).

46. *Page 172—note on heads (10), (11) and (13).*—The Public Accounts Committee may like to investigate the circumstances in which the supplementary provisions for Rs. 60,000, Rs. 50,000, and Rs. 15,000 shown against items (c), (d), and (e) in the statement given on this page were later on diverted to meet the expenditure on objects other than those for which they were obtained. Although such re-appropriations are technically *intra vires* of the rules now in force on the subject the Committee may like to consider whether on principle the utilisation of the whole of an additional grant for a purpose for which the grant was not voted by the Council is desirable.

I also endorse the view expressed by the Accountant General in the two lines on the top of page 173.

47. *Pages 173 and 174.—notes on heads (19) and (21).*—The Public Accounts Committee may like to enquire whether the control over expenditure under these heads is not defective.

48. *Page 174—note on head (25).*—The Public Accounts Committee may desire to investigate the reasons for the want of control over the expenditure under the head "Suspense".

49. *Page 175—paragraph 2 of the note regarding the Profit and Loss Accounts of the Public Works Department Workshop.*—I endorse the view expressed by the Accountant General in the last sentence.

50. *Page 180—note on heads 6 (a).*—It is not clear why payment of certain commuted pensions was postponed when there were large savings both under this sub-head and under the grant.

51. *Page 197—note on heads (4) to (7).*—The intention is that expenditure of a capital nature should be recorded in the first place in the capital and not in the revenue section of the accounts and the budget provision should be made accordingly.

52. *Page 209—note 'General'.*—There was an excess, and not a saving, of voted expenditure of about 4·7 per cent.

53. *Paragraph 4 of the report of the Auditor of Indian Home Accounts upon the accounts of the High Commissioner for India.*—Attention of the Public Accounts Committee is invited to this paragraph.

Enclosure XIII(a).

TO THE CHIEF SECRETARY TO THE GOVERNMENT OF ASSAM, FINANCE DEPARTMENT, No. 422-ADMN./80-27, DATED THE 6TH APRIL 1927.

SUBJECT:—*Audit and Appropriation Accounts of the Government of Assam for the year 1925-26.*

With reference to Rule 15(a) of the Auditor General's Rules framed under Section 96D.(1) of the Government of India Act, I have the honour to transmit herewith two copies of the Audit and Appropriation Accounts of the Government of Assam for the year 1925-26 prepared by the Comptroller, Assam, for submission to the Public Accounts Committee and for necessary action by the Government of Assam. I also transmit herewith two copies of the Appendix to the Audit Report on the accounts of the Government of Assam for the year 1925-26, prepared by the Comptroller, Assam, with reference to Chapter VI of the Manual of Instructions for the preparation of Audit and Appropriation Reports, for necessary action by the local Government. This Appendix does not concern the Public Accounts Committee.

2. Copies of the accounts of the receipts and disbursements of the Secretary of State and the High Commissioner for India on account of the Government of Assam for 1925-26 together with the Home Auditor's report thereon will be transmitted to the local Government when copies thereof are received.

3. I offer the following comments on the Audit and Appropriation Accounts.

4. *Para. 2.*—To prevent any possible confusion the Audit Report will hereafter be called the "Executive Report".

5. *Para. 3.*—I endorse the remarks made by the Comptroller in this paragraph.

6. *Para. 5.*—From paragraph 80 of the report, it appears that the local Government has accepted the decision of the Government of India that the Public Accounts Committee is competent to deal with receipts in so far as matters relating to such receipts are mentioned in the Audit and Appropriation Accounts. It has since been decided by the Government of India that the Public Accounts Committee is entitled to offer, in its report, criticisms and recommendations upon any matter discussed in the Audit and Appropriation Reports or in the Auditor General's forwarding report, whether such matter concerns the accounts of expenditure, voted or non-voted, or those of receipts—*vide* paragraph 4 of Government of India Finance Department, letter No. D-1944-A., dated the 11th August 1926. It is the duty of the Finance Department to take into consideration the comments of the Public Accounts Committee not on voted subjects alone as stated in the present report but also on any other points commented upon by that authority whether they relate to receipts or to non-voted expenditure.

Cases arising in a 'backward tract', where the provision of Section 72D of the Government of India Act does not apply, do not, however, come within the purview of the Public Accounts Committee.

7. *Para. 24.*—(a) It has since been recognised by the Government of India that once a demand has been voted by a Legislative Council there is no provision either in the Government of India Act or in Rules made thereunder which permits of the grant being reduced on the motion either of the Government or of a non-official Member. On the other hand, a local Government is entitled to sanction supplementary funds for any non-voted Service and such sanction is fully justified if Government is assured that there will be a saving under a specified voted grant. It is also entitled to issue executive orders to the authority controlling any specified voted grant to restrict the expenditure within a specified figure. Thus, it will be seen that the Finance Department is not competent to sanction a formal re-appropriation from a voted to a non-voted service as the reduction of a grant voted by the Council is unconstitutional as stated above.

(b) The Public Accounts Committee may like to consider whether re-appropriation of such small sums as in "5. Land Revenue", "22 General Administration", "26 Police (other than Assam Rifles)", "34 Agriculture" and "35 Industries" are necessary or desirable.

8 *Para. 29* (i).—It appears that these elephants are sometimes hired to outsiders. The desirability of increasing the hire charges to outsiders needs consideration.

9. *Para. 29* (iii) (b).—The duty of checking distances is laid on the controlling officer and his failure to do so is regrettable. Audit has to depend upon the counter-signature of the controlling officer and if this is treated as a formality, one important check fails altogether. I hope that the procedure to be followed in the future will be drawn up expeditiously and that the need of exercising this check effectively will be brought home to other controlling officers.

10. *Para. 31.*—In order to indicate the improvement that can be achieved in this direction, I quote below the figures of a major province for the last five years:—

| Year. | Percentage. |
|-------------------|-------------|
| 1921-22 | 0·86 |
| 1922-23 | 1·08 |
| 1923-24 | 0·57 |
| 1924-25 | 0·92 |
| 1925-26 | 0·81 |

11. *Paragraphs 33 to 36.*—It is satisfactory to note that there has been a marked improvement in the percentage of objections to the total expenditure under Public Works Department.

12. *Paragraph 43*—Head "52, Extraordinary charges" in the table on page 23.—In this connection, attention is invited to footnote (a) on page 527 of the Finance and Revenue Accounts for 1925-26. It was decided by me that the charges were not such as should ordinarily be recorded under the head "52. Extraordinary charges" but I acquiesced in such a record because the local Government had made provision in the budget under that head and because it was not thought necessary to raise a definite issue as the amount involved was not considerable.

13. *Paragraph 59.*—The local Government may desire to investigate whether the control exercised over the expenditure under these heads is effective and if not what steps should be taken to establish it on a proper footing.

14. *Paragraphs 61* (i) and (ii).—In forwarding the Executive Report for 1925-26 to the local Government, I made the following remarks, on these cases which were mentioned in paragraphs 6 (a) and (b) thereof:—

"*Paragraphs 6* (a) and (b).—Two cases of misappropriation by mauzadars have been recorded in paragraph 43 of my letter No. 564-Admn./63-26, dated the 31st May 1926, to the Government of India, Finance Department, forwarding the Audit Reports for 1924-25 for transmission to the

Secretary of State, it was pointed out that several cases of defalcation committed by mauzadars were noticed in the Audit Reports for 1919-20 to 1922-23 and that it was desirable that the system should be improved. With regard to a similar defalcation noticed in paragraph 3(2) of the Audit Report for 1922-23, the Public Accounts Committee observed as follows:—

‘The mauzadari system is undoubtedly the one best suited to local conditions in the Assam valley and the Government of Assam have no intention of abandoning it for any other. The cases of defalcation which have occurred were due not to any failure of the system, but to the omission to enforce strictly the standing orders regarding the taking of security and the suspension of mauzadars who are in arrears. The orders have been revised and made more precise, and, if they are observed there should be no more cases of defalcation.’

The above observation is dated the 5th April 1924. I, therefore, draw the special attention of the Government to the cases referred to in sub-paragraph (b) which occurred in 1924-25.”

15. *Paragraph 67.*—Attention of the Public Accounts Committee is drawn to the footnote (b) under the table given in paragraph 22 of the report. It may like to enquire into the cause of the excess over the grant specifically reduced by the Council.

16. *Paragraph 71.*—In paragraph 18 of their report on the accounts of 1924-25, Volume I, the Central Public Accounts Committee said as follows:—

“A considerable number of cases have been brought to light in the accounts for the year 1924-25 in which loss of the taxpayer’s money has resulted from the faulty or insufficient considered drafting of contracts entered into on behalf of the Government. Examples will be found in paragraphs 60, 61, 158, 202(a) and 205(a) of the Accountant General, Central Revenues’ report. Another case of rather a different character connected with a contract for the employment of a public servant will be found in paragraph 99 of the same report. The particular cases mentioned on pages 13 to 17 of the Audit report on the Army accounts and dealt with in paragraph 43 of the proceedings of the departmental committee on Army accounts (Appendix XVI) are interesting as shewing the valuable results which may ensue from the examination of the accounts by the Audit Department and the Public Accounts Committee. The defects brought to light by these cases have been remedied by the Army Department which has issued an Indian Army Order, given in an appendix to the report of the Army Accounts Committee just mentioned, in which the mistakes due to faulty drafting of contracts for hired transport brought out in the Audit Report have been specially brought to the notice of all concerned and directions have been given for the introduction of standard forms of contract and a standard procedure. The amount of Government money which may be risked owing to hasty or faulty procedure in giving out contracts and in making payments upon them is very large and we consider that it is a matter of great importance that adequate arrangements should be made for securing that legal and financial advice is available to and obtained by the officers responsible for giving out contracts before they are finally entered into. Standard forms of contract should be adopted wherever possible and the rates mentioned in the contracts subjected to adequate prior scrutiny. In this connection, we desire to reaffirm the view expressed by the Committee of 1925 in paragraph 49 of their report and accepted by the Government of India in Finance Department Resolution of the 1st June 1926 paragraph 27, that the Finance Department should make rules to provide that any contracts containing any unusual conditions should not be entered

into without previous consultation with that Department, and that material variations in contracts once entered into should not be made without its sanction. Several cases have been brought to light in which executive officers have incurred considerable expenditure by varying contracts without consultation with the financial authorities. We desire also to re-affirm the important principle that whenever practicable contracts should be placed only after tenders have been openly invited. It is no doubt necessary that discretion should be reserved to the executive authorities on grounds which should be recorded in writing to dispense with tenders in special cases where it is clearly in the tax-payer's interest to do so, but such cases should be comparatively infrequent, should be admitted only when there are very special reasons for making an exception to the general rule and should be subjected to close scrutiny both by the executive and by audit".

The case referred to in paragraph 10 of the report under review is an excellent example of the dangers which arise when orders are issued for work to be started before proper estimates and contracts have been completed and Government will no doubt consider the desirability of issuing general instructions on the subject. At the same time, I would express the opinion that taking disciplinary action is of more deterrent value than the issue of instructions and that, in view of the serious loss which has resulted in this case, the disciplinary action which has been taken, *viz.*, the issue of a warning, is inadequate.

17. *Paragraph 75.*—In this connection, attention is invited to paragraph 7(i) of my letter No. 527-Admn./71-24, dated the 29th March 1924, forwarding the Appropriation Report for the year 1922-23. No difficulty would have been felt by the Comptroller had the orders contained in the Government of India, Finance Department, letter No. 143 F., dated the 16th January 1924, been followed.

18. *Paragraph 76.*—In forwarding the Executive Report to the local Government, I made the following comment on this case:—

"The infringement of Article 1 and Rule 1 under Article 4, Civil Account Code, Volume I, on the part of successive Deputy Commissioners and the connivance of the Treasury Officers in this irregularity is deplorable. I trust the Government will issue an adequate warning to the Deputy Commissioners and Treasury Officers who were connected with this transaction and are still in service."

19. *Page 46—Note A—Non-voted* — As the major part of the excess expenditure was foreseen at the time of the revised estimate, it is not clear why the excess to the amount anticipated was not provided by re-appropriation.

20. *Page 51—Notes C and D.*—To obviate such an excess in future the demands for grants should include provision within the grants under which the expenditure will eventually be booked.

21. *Page 53.—Grant No. 7-C.—Civil Secretariat—Non-voted.*—The supplementary provision of Rs. 1,780 seems to have been unnecessary.

22. *Page 54—Note (a); Page 67—Note C; Page 79—Note A.-2; Page 87—Note C (d) and Page 91—Note A.*—Provision for certain expenditure should be made in the Demands for grants under the head under which that expenditure will be booked in the accounts.

23. *Pages 60 to 62—Grant No. 10—Police.*—No provision was made in the budget for expenditure under the head "I.—Works" and the excess expenditure was met by re-appropriation sanctioned by the Finance Department. An excess also occurred under the head "C—District Executive Force—Voted" (17) which was partly covered by re-appropriation, while on the other hand, there were savings under other heads, a large saving having occurred under the Head "E.—Railway Police—Voted" (12). Apparently large re-appropriations were made between these heads with the result that a net excess occurred under the grant as a whole and this seems to indicate a lack of knowledge of the progress of expenditure, or

defective budgeting, or a neglect to obtain a supplementary grant to cover an expenditure in excess of the grant. The Public Accounts Committee may like to investigate whether the process by which the budget provision was initially made as well as the control over expenditure in this Department were not defective. Attention is also invited in this connection to paragraph 70 of the report.

24 Page 63—*Grant No. 11.*—The actual expenditure under this grant seems to have been Rs. 17,81,672 while details are given of Rs. 1,81,672 only. The Public Accounts Committee would probably prefer to see the details of the gross expenditure.

25. Page 68—*Grant No. 16. Head A. Original Works. Voted.*—Attention of the Public Accounts Committee is drawn to the Comptroller's remark in regard to this head.

26 Page 73, *Notes A and F.*—The Public Accounts Committee may wish to ascertain how it was that the authority controlling this grant was not aware that a bill for Rs. 42,000 was to be presented. Presumably it must have been for work done for the province.

27 It appears from the notes under the Appropriation Accounts that lump sum cuts have sometimes been made under "Pay of establishments". It also appears, however, that savings still frequently occur under that head whenever the establishments are large.

In paragraph 13 of their report on the accounts of 1924-25 the Central Public Accounts Committee called special attention to this tendency. The budget estimates should be as close as possible and the Public Accounts Committee may desire to suggest that lump cuts should be made under the head "Pay of establishments" when the demand under such a head exceeds, say, one lakh.

Enclosure XIII (b).

FROM SIR FREDERIC GAUNTLETT, K.B.E., C.I.E., I.C.S., AUDITOR GENERAL IN INDIA, TO THE CHIEF SECRETARY TO THE GOVERNMENT OF ASSAM, No. 724-ADMN./80-27, DATED THE 21ST MAY 1927.

SUBJECT.—*Reports of the Auditor, (India) Home Accounts on the Accounts of the Secretary of State and the High Commissioner for India for the year 1925-26.*

In continuation of my letter No. 422-Admn./80-27, dated the 6th April 1927, forwarding Audit and Appropriation Accounts of the Government of Assam for the year 1925-26, I have the honour to transmit herewith two copies of the accounts of the receipts and disbursements of the Secretary of State and the High Commissioner for India on account of the Government of Assam for the year 1925-26, together with two copies of the Appropriation Accounts, and the reports thereon prepared by the Auditor, (India) Home Accounts, for submission to the Public Accounts Committee and necessary action by the local Government.

Enclosure XIV (a).

FROM SIR FREDERIC GAUNTLETT, K.B.E., C.I.E., I.C.S., AUDITOR GENERAL IN INDIA, TO THE CHIEF COMMISSIONER OF COORG, No. 633-ADMN./81-27, DATED THE 10TH MAY 1927.

SUBJECT.—*Appropriation Report on the accounts of the Government of Coorg for the year 1925-26.*

With reference to Rule 15(a) of Auditor General's rules framed under Section 96D(1) of the Government of India Act, I have the honour to forward herewith two copies of the Appropriation Report on the accounts of the Government of Coorg, for the year 1925-26, prepared by the Accountant General, Madras, for transmission to the Government of India with your observations, as desired by the Government of India, in their Finance Department letter No. 4320-A., dated the 2nd May 1925, a copy of which was forwarded to you under Finance Department endorsement No. 4321-A., dated the 2nd May 1925.

